

1. EMERGE (Vol. 2)

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2. INTRODUCTION

According to an article in FastCompany, "Why Most Venture Backed Companies Fail," 75 percent of venture-backed startups fail. This statistic is based on a Harvard Business School study by Shikhar Ghosh. In a study by Statistic Brain, Startup Business Failure Rate by Industry, the failure rate of all U.S. companies after five years was over 50 percent, and over 70 percent after 10 years. But these men have been in business for decades and have maintained consistent success.

- How did they do it?
- What's their philosophy about business?
- What do you do when you're faced with overwhelming business challenges?
- How do you become your competitor's inspiration?

Emerge (Vol. 2) answers these and many more questions.

Recently, Forbes released the rank of World's Billionaires which are stated below

RANK	NAME	NET WORTH	CHANGE	AGE	SOURCE
#1	Jeff Bezos	\$140.1 B	\$0	54	Amazon
#2	Bill Gates	\$92.2 B	\$3 M	62	Microsoft
#3	Warren Buffett	\$80.6 B	\$0	87	Berkshire Hathaway
#4	Bernard Arnault	\$77.3 B	\$587 M -0.8%	69	Lvmh
#5	Mark Zuckerberg	\$73.7 B	\$0	34	Facebook
#7	Carlos Slim Helu	\$62.8 B	\$34 M -0.1%	78	Telecom
#8	Larry Ellison	\$54.5 B	\$0	73	Software

These seven (7) successful tycoons shared the story of their journey to the top, the challenges, quotes and philosophy about business. Most of what you will read here may not be new to you, while some could be new and enlightening.

It's not about what you read, but what you do with what you read. This work is a collection that will definitely reposition you for excellence and success in your business. I will advise you to have a to-do list while reading to enable you personalize everything therein.

Enjoy!

Okorie, Stephen Odum

3. CHAPTER 1: JEFF BEZOS

JEFF BEZOS

CEO and Founder, Amazon.com

Real Time Net Worth — as of 6/10/18 - \$138.8 B

2018 Billionaires Net Worth — as of 3/6/18 - \$112 B

- Amazon's chief Jeff Bezos is the first person to top \$100 billion as number one on the Forbes list of the World's Billionaires.
- He owns 16% of e-commerce colossus Amazon, which he founded in a garage in Seattle in 1994.
- Bezos attended Princeton and worked at a hedge fund before quitting to sell books online.
- His other passion is space travel: His aerospace company, Blue Origin, is developing a reusable rocket that Bezos says will carry passengers.
- Bezos purchased The Washington Post in 2013 for \$250 million.

Jeff Bezos Advice

“Your brand is what other people say about you when you’re not in the room.”

“You have to be willing to be misunderstood if you’re going to innovate.”

“One of the only ways to get out of a tight box is to invent your way out.”

“I knew that if I failed I wouldn’t regret that, but I knew the one thing I might regret is not trying.”

“A company shouldn’t get addicted to being shiny because shiny doesn’t last.”

“If you do build a great experience, customers tell each other about that. Word of mouth is very powerful.”

“If you don’t understand the details of your business you are going to fail.”

“There are two kinds of companies – those that work to raise process and those that work to lower them.”

“The common question that gets asked in business is, why? That’s a good question, but an equally valid question is why not?”

“A brand for a company is like a reputation for a person. You earn reputation by trying to do hard things well.”

“The best customer service is if the customer doesn’t need to call you, doesn’t need to talk to you, it just works.”

“If you make customers unhappy in the physical world, they might each tell 6 friends. If you make customers unhappy on the internet, they can each tell 6,000 friends.”

“In business, what’s dangerous is not to evolve.”

“There’ll always be serendipity involved in discovery.”

“Kindness is a choice.”

“If you’re not stubborn, you’ll give up on experiments too soon. And if you’re not flexible, you’ll pound your head against the wall and you won’t see a different solution to a problem you’re trying to solve.”

“We have focused like a laser on customer experience, and that really does matter.”

“Frugality drives innovation.”

“We see our customers as invited guests to a party, and we are the hosts. It’s our job every day to make every important aspect of the customer experience a little bit better.”

“Keep our competitors focused on us, while we stay focused on the customer.”

“Invention by its very nature is disruptive.”

“The people who are right a lot, often change their minds.”

“The thing that motivates me is a very common form of motivation. And that is, with other folks counting on me, it’s so easy to be motivated.”

“If you never want to be criticized, for goodness sake don’t do anything new.”

“If you want to be inventive, you have to be willing to fail.”

“When the world changes around you and when it changes against you, what used to be a tail wind is now a head wind, you have to lean into that and figure out what to do because complaining isn’t a strategy.”

“If you’re competitor-focused, you have to wait until there is a competitor doing something. Being customer-focused allows you to be more pioneering.”

“Patience, persistence, and obsessive attention to detail.”

“What we need to do is always look into the future.”

“Are you lazy or just incompetent?”

“We expect all our businesses to have a positive impact on our top and bottom lines. Profitability is very important to us or we wouldn’t be in this business.”

“It’s not an experiment if you know it’s going to work.”

“The human brain is an incredible pattern-matching machine.”

“Obsess about customers, not competitors.”

“It’s hard to find things that won’t sell online.”

“Be stubborn on vision but flexible on details.”

“One of the huge mistakes people make is that they try to force an interest on themselves. You don’t choose your passions. Your passions choose you.”

“If you decide that you’re going to do only the things you know are going to work, you’re going to leave a lot of opportunity on the table.”

“Life’s too short to hang out with people who aren’t resourceful.”

“Work hard, have fun, and make history.”

“My own view is that every company requires a long-term view.”

“Part of company culture is path-dependent – it’s the lessons you learn along the way.”

“We’ve had three big ideas at Amazon that we’ve stuck with for 18 years, and they’re the reason we’re successful: Put the customer first. Invent. And be patient.”

“I strongly believe that missionaries make better products. They care more. For a missionary, it’s not just about the business. There has to be a business, and the business has to make sense, but that’s not why you do it. You do it because you have something meaningful that motivates you.”

“Position yourself with something that captures your curiosity, something that you’re missionary about.”

Jeff Bezos Exclusive Interview

During an interview at the ideas festival Summit LA17, in Los Angeles in November, Bezos divulged some of the secrets to his insane fame and fortune. TechCrunch posted tidbits from the conversation; below, we've rounded up the highlights.

Choosing the right partner was important to Jeff Bezos' success

Jeff and MacKenzie Bezos have been married 24 years. They met when Bezos interviewed MacKenzie at investment management firm D.E. Shaw.

After a series of blind dates with other people, Bezos said he knew he'd found his life partner when he saw that MacKenzie was resourceful. "I wanted someone who could get me out of a third-world prison," he said at the conference.

Avoiding multitasking to be successful

"When I have dinner with friends or family, I like to be doing whatever I'm doing," Bezos said. "I don't like to multi-task. If I'm reading my email I want to be reading my email" with his full attention and energy.

Indeed, scientists say only about 2% of the population is capable of multitasking. As for the rest of us, trying to do too much at once generally backfires.

Knowing where your talents are

"I have this fantasy of being a bartender," Bezos said. "I pride myself on my craft cocktails." That said, Bezos admitted he's very slow. In his fantasy bar, there would be a sign saying, "Do you want it good or do you want it fast?"

Opting for adventure over ease

Bezos said everyone has two options for creating their "life story." Either you go for a life of "ease and comfort" or a life of "service and adventure." Bezos is clear about which is the right choice: He said you'll be prouder of living an adventurous life when you're 80 years old.

It goes back to Bezos' "regret minimization framework," which he mentioned at the Summit Series. In an oft-cited interview, which appears to have been conducted by the Academy of Achievement, Bezos described his decision to found Amazon:

"I knew that when I was 80, I was not going to regret having tried this. I was not going to regret trying to participate in this thing called the Internet that I thought was going to be a really big deal. I knew that if I failed, I wouldn't regret that.

"But I knew the one thing I might regret is not ever having tried. I knew that that would haunt me every day."

Mathias Döpfner, the CEO of Business Insider's parent company, Axel Springer, recently sat down with Amazon CEO Jeff Bezos to talk about the early days of creating Amazon, what he's learned since then, how he funds his rocket company, Blue Origin, and what it's like when the president of the United States is your biggest critic.

The sit-down interview happened in Berlin, where Bezos received the Axel Springer Award 2018.

Mathias Döpfner: Jeff, welcome to Berlin.

Jeff Bezos: Thanks. It's great to be here.

Döpfner: When we were sitting in the first row just a couple of minutes ago, waiting for the award ceremony, you looked at me: "Mathias, are you nervous?" And I said, "Yes, I'm always nervous on occasions like this." And you said, "So am I." And I said, "Really?" The richest person in the world is nervous"

Jeff, you used to work in New York as an investment banker. So, an investment banker is actually the exact opposite of an entrepreneur. He's not taking risks himself – he is taking advantage of risks that other people take. How did you dare to think that you should become an entrepreneur and really launch a company?

Bezos: I think I always wanted to do it, even since I was a kid. I had the idea. I was one of those people who every time I looked at something it looks like it could be improved – there's something wrong with it. So I'd go through, like, how could this restaurant be better? So I've always had that kind of idea.

By the way, before we really get into this: How about this amazing production that you and your team have put together? This is truly incredible for its originality. These boxes that you were filming live - that's just crazy cool. So, thank you.

I think the great thing about humans in general is we're always improving things. And so if entrepreneurs and inventors follow their curiosity and they follow their passions, and they figure something out and they figure out how

to make it. And they're never satisfied. You need to harness that. In my view, you need to harness that energy primarily on your customers instead of on your competitors. I sometimes see companies - even young, small startup companies or entrepreneurs who arrived — is that they start to pay more attention to their competition than they do to their customers. And I think that in big mature industries, that can or might be a winning approach that some cases they kind of close follow. They let other people be the pioneers and, you know, go down the blind alleys. There are many things that a new, inventive company tries that won't work. And those mistakes and errors and failures do cost real money.

And so maybe in a mature industry where growth rates are slow and change is very slow, but, as you see in the world more and more, there aren't that many mature industries. Change is happening everywhere. You know, we see it in the automobile industry with self-driving cars, but you can go right down the line of every industry and see it.

Döpfner: But do you have any idea of where your ambition really comes from — what was driving you?

Bezos: I really don't know. I have been passionate about certain things forever, and I fell in love with computers in fourth grade. I got very lucky: My elementary school had a teletype that was connected to a mainframe computer that some business in downtown Houston donated a little bit of computer time to. You can picture these teletypes: They had the punch tape and they had a 300-baud modem. You would dial up the phone and put it in the cradle, and so we had some time-sharing on that mainframe computer, and none of the teachers knew how to use it, so me and two other kids stayed after school and sort of figured out how to do it, and kind of taught ourselves programming from books. I think one thing is, I got very lucky early in my childhood.

Look, we all get gifts, we get certain things in our life that we're very lucky about. And one of the most powerful ones is who your early role models are, you know it could be...

Döpfner: Your grandfather.

Bezos: It was — in a big sense. My mom and my dad and my grandfather too. My mom had me when she was 17 years old, and she was still in high school, in Albuquerque, New Mexico, and this is in 1964. I can assure you that being a pregnant teenager in high school was not cool in Albuquerque, New Mexico, at that time. And so it was very difficult for her. My grandfather went to bat for her, and then they tried to kick her out of school, and they're incredible, so the gift I had was I that had this incredible family.

Döpfner: Could you describe a little bit the role of your grandfather? It seems he was particularly important to you.

Bezos: He was super important for me, and I spent an unusual amount of time with my grandparents, and especially with my grandfather on the ranch. He had a ranch in South Texas, and I would spend my summers there, from age 4 to 16. When I was 4, they were taking me for the summer to kind of give my parents a break. I was so young, and it was useful. I was a handful, I'm sure. Anyway, he created the illusion for me when I was 4 years old that I was helping him on the ranch. Which, of course, cannot have been true. But I believed it. And by the time I was 16, of course, I was actually helping on the ranch. I could fix prolapsed cattle; we did all our own veterinary work. Some of the cattle even survived. *[Laughs]* And we fixed windmills, and laid water pipelines, and built fences, and barns, and fixed the bulldozer that you guys talked about. And so one of the things that's so interesting about that lifestyle and about my grandfather is he did everything himself. You know, he didn't call a vet if one of the animals was sick; he figured out what to do himself.

Döpfner: So, the lesson was, if it really matters, there is no delegation?

Bezos: Being resourceful. If there's a problem, there's a solution. And of course as you get into the business world and anything you do on a team, you very quickly realize that it's not just about your own resourcefulness and that it's about team resourcefulness. And how does that work? But that attitude of my grandfather's — he was full of wisdom. And as John mentioned the story about the words my grandfather gave me at one point that "It's harder to be kind than clever."

That story — the slightly longer version of that story, because this is really powerful wisdom — is that I made my grandmother burst into tears. The way I did it was we were driving on a long road trip, and she was a chain-smoker. And this was — I was probably 10 years old — so this was around 1974, and we was in a period of time where there were heavy anti-smoking radio advertisements trying to convince people to stop smoking. One of the advertisements had this figure in it that said something like, "Every puff of a cigarette takes so many minutes off your life." I think it was two minutes but can't remember.

So, I sat in the back of the car on this long car ride and calculated how many years she had taken off of her life. In my 10-year-old mind, I had been extremely clever to do this, and so when I was finished with my arithmetic, I proudly announced to her how many years she had taken off of her life. And I got a reaction I did not expect, with her bursting into tears. So my grandfather stopped the car and he took me out of the car. And I had no idea what was about to happen, because he had never said a cross word to me. I thought, he might actually be angry with me. But he wasn't. He took me out so that we had some privacy from her and he said these incredible words. He said, "You're going to figure out one day that it's harder to be kind than clever."

Döpfner: Wonderful. And how about your brother? Is it true that he's still a firefighter?

Bezos: He is. He's a volunteer firefighter in Scarsdale, New York. He's also the funniest person I know. When I'm with him I'm just laughing continuously. First of all, I'm a good audience — I mean, I laugh easily. But he is really very funny, and my sister too. We're all very close. And I have my mother to thank for that because she worked hard to make sure as we grew up so that we stayed close together. She takes all the grandkids for one week every summer so that me and my sister and our spouses can go on a trip together. So we end up spending a lot of time together.

Döpfner: For me, the most moving image that we saw tonight was the one that John Elkann showed, where you and MacKenzie are constructing that famous office table. It is very moving because it shows how you really started from scratch, like two classmates. It illustrates, symbolically, that the

launch of Amazon was really something that you did together. Could you describe a little bit what MacKenzie's role was?

Bezos: Well, first of all, MacKenzie, you know, she had married this stable guy working on Wall Street, and a year after we got married, I went to her and said I wanted to quit my job, move across the country, and start this internet bookstore. And MacKenzie, of course, like everybody I explained this to, her first question was: "What's the internet?" Because nobody knew. This was 1994.

But even before she could say "What's the internet?" she said, "Great — let's go!" Because she wanted to support it and she knew that I had always had this passion for invention and starting a company. And so again, I think, you know, MacKenzie is an example of this, what I was talking about with my mom and my dad, who's a Cuban immigrant, and he came to the US when he was 16 in a refugee camp in the Everglades. They are so loving and supportive. When you have loving and supportive people in your life, like MacKenzie, my parents, my grandfather, my grandmother, you end up being able to take risks. Because I think it's one of those things, you know, you kind of know that somebody's got your back. And so if you're thinking about it logically, it's an emotional thing.

Döpfner: So you think that unconditional love — if you feel and experience unconditional love — it helps you to take risks in life?

Bezos: I think it helps you take ... By the way I think that's probably true for all kinds of risks in life, not just for starting a business. Life is full of different risks. And I think that, when you think about the things that you will regret when you're 80, they're almost always the things that you did not do. They're acts of omission. Very rarely are you going to regret something that you did that failed and didn't work or whatever. But the acts of omission. And again, I'm not just talking about business things — it's, like, "I love that person and I never told them," and, you know, 50 years later you're, like, "Why didn't I tell her? Why didn't I go after it?" So that's the kind of life regret that is very hard to be happy about when you're telling yourself in a private moment that story of your life. I have been — I've won that lottery, of having so many people in my life who have given me that unconditional love, and I do think that MacKenzie's definitely one of those. So, we moved, and then

MacKenzie, who basically has no skill in this area at all — I mean, really, you're the least suited person for this. But she did our accounting for the first year. Was it the first year?

MacKenzie Bezos: Yeah.

Bezos: Something like that. And she did it *well*. That's what's amazing. My wife is a novelist. She's won the American Book Award. Toni Morrison, the Nobel Prize-winning author, who was MacKenzie's teacher at Princeton, said on the "Charlie Rose" show that MacKenzie was her best student ever. So MacKenzie is a very talented novelist, but she is not an accountant. But she pulled it off. And again, we all got done what we needed to get done.

Döpfner: Did she, being an author, suggest that you focus on the book business at the beginning?

Bezos: No, I picked books. It is true that she's a big reader and I'm a big reader. But that's not why I picked books. I picked books because there were more items in the book category than in any other category. And so you could build universal selection. There were 3 million in 1994 when I was pulling this idea together — 3 million different books active in print at any given time. The largest physical bookstores only had about 150,000 different titles. And so I could see how you could make a bookstore online with universal selection. Every book ever printed, even the out-of-print ones was the original vision for the company. So that's why books.

Döpfner: And when did you know that Amazon was going to be successful?

Bezos: Well, I knew that the books, strangely — I was very prepared for this to take a really long time. I knew that the books business was going to be successful in the first 30 days. I was shocked at how many books we sold. We were ill-prepared. We had, like, only 10 people in the company at that time. And most of them were software engineers. So, everybody, including me and the software engineers were all packing boxes. We didn't even have packing tables. We were down on our hands and knees on a concrete floor, packing the boxes. At about 1 or 2 in the morning, I said to one of my software-engineering colleagues — I said, "You know, Paul, this is killing my knees. We need to get knee pads." And Paul looked at me and he was,

like, "Jeff, we need to get packing tables." [Laughs] And I was, like, "Oh, my God, that is such a good idea." The next day I bought packing tables, and it doubled our productivity, and probably saved our backs and our knees too.

Döpfner: But Amazon had serious crises. You went almost bankrupt. What went wrong?

Bezos: We had so many; there have been so many. I haven't had any existential crises — knock on wood — I don't want to jinx anything. But we've had a lot of dramatic events. I remember, early on, we only had 125 employees, when Barnes & Noble, the big United States bookseller, opened their online website to compete against us, barnesandnoble.com. We'd had about a two-year window. We opened in 1995; they opened in 1997. And at that time all of the headlines — and the funniest were about how we were about to be destroyed by this much larger company. We had 125 employees and \$60 million a year in annual sales — \$60 million with an "M." And Barnes & Noble at that time had 30,000 employees and about \$3 billion in sales. So they were giant; we were tiny. And we had limited resources, and the headlines were very negative about Amazon. The one that was most memorable was just "Amazon. toast." [Laughs]

And so I called an all-hands meeting, which was not hard to do with just 125 people. We got in a room, and because it was so scary for all of us, this idea that now we finally had a big competitor. That literally everybody's parents were calling and saying, "Are you OK?" It's usually the moms calling and asking their children are you going to be OK? So, and I said, "Look, you know, it's OK to be afraid, but don't be afraid of our competitors, because they're never going to send us any money. Be afraid of our customers. And if we just stay focused on them, instead of obsessing over this big competitor that we just got, we'll be fine." And I really do believe that. I think that if you stay focused and the more drama there is and everything else, no matter what the drama is. Whatever the actionable distraction is, your response to it should be to double down on the customer. Satisfy them. And not just satisfy them — *delight* them.

Döpfner: Amazon is employing 566,000 people. You're probably the biggest job creator of recent times. At the same time, you are aggressively criticized

by unions, and by the media for paying low wages, for inappropriate working conditions. How do you deal with these accusations?

Bezos: Well, first of all, with any criticism ... my approach to criticism and what I teach and preach inside Amazon – is when you're criticized, first look in a mirror and decide, are your critics right? If they're right, change. Don't resist.

Döpfner: Are they right?

Bezos: No. Not in this case. But we've had critics be right before, and we changed. We have made mistakes. And you know, I can go through a long list. One of the early, most painful ones is so stupid, it's hard to believe how we ever did it. But early on with the Kindle, either the first year of the Kindle or the second year of the Kindle, we had accidentally illegally sold – or given away I guess – copies of the famous novel "1984." Because it had a complicated copyright history, it was in copyright in the US and not in the UK, or something strange like this, so it was in the public domain, but only in certain geographies. And we had screwed that up. And somehow, and this is the kind of mistake that only a corporation can make, an individual can't make this mistake because somehow it happens at the intersections of the different teams, so you've got the legal department saying, "Oh crap, we've made this mistake" and you've got the books team ... And anyway, the answer the company came up with was to – and we did this without warning – just electronically go into everybody's Kindle who had downloaded that book and just disappear it. *[Laughs]* So, it'd be as if we'd walked into your bedroom in the middle of the night, found your bookshelf, and just took that book away. And so we were rightly criticized for that, and we responded to that.

On the issue of working conditions, I'm very proud of our working conditions and very proud of the wages we pay. You know, in Germany we employ 16,000 people, and we pay at the high end of the range for any comparable work.

Döpfner: So, is it a union fight, because the union wants to make sure you are unionized, or what is the real substance of the conflict?

Bezos: It's a good question. And this is in my longer version of how to deal with critics.

There are two kinds of critics. There are well-meaning critics who are worried it's not going to work, but they do want it to work. So it could be — I can give you an example — customer reviews would be one of those. When we first did customer reviews 20 years ago, some book publishers were not happy about it because some of them were negative so it was a very controversial practice at that time, but we thought it was right and so we stuck to our guns and had a deep keel on that and didn't change. But there's a second kind of critic, which is the self-interested critic, and they come in all shapes and sizes. So they can be any kind of institution, competitors, of course. And so when you are doing something in a new way, and if customers embrace the new way, what's going to happen is incumbents who are practicing the older way are not going to like you. And they're going to be self-interested critics.

And so you do need, as you're looking at yourself in the mirror, to try and tease those two things apart. In our view, we have workers' councils, of course, and we have very good communications with our employees. So we don't believe that we need a union to be an intermediary between us and our employees but, of course, at the end of the day, it's always the employees' choice. And that's how it should be. But for sure we would be very naïve to believe that we're not going to be criticized. That's just part of the terrain. You have to accept that. One thing that I tell people is if you're going to do anything new or innovative, you have to be willing to be misunderstood. If you cannot afford to be misunderstood, then for goodness' sake, don't do anything new or innovative.

Döpfner: Maggie Thatcher said, "Leadership is not to be pleased by the moment."

Bezos: Perfect.

Döpfner: But your most prominent critic at the moment is the president of the United States. People are even saying that he may be willing to prepare initiatives to break up Amazon, because it's too big, it's too successful, it's too dominant in too many sectors, or for varied other reasons, including the

fact that he doesn't like The Post. Is this break-up scenario something that you take seriously, or do you think it's just a fantasy?

Bezos: For me, again, this is one of those things where I focus on and ask our teams to focus on what we can control, and I expect, whether it's the current US administration or any other government agency around the world, Amazon is now a large corporation and I expect us to be scrutinized. We should be scrutinized. I think all large institutions should be scrutinized and examined. It's reasonable. And one thing to note about is that we have gotten big in absolute terms only very recently. So we've always been growing very fast in percentage terms, but in 2010, just eight years ago, we had 30,000 employees. So in the last eight years we've gone from 30,000 employees to 560,000 employees.

You know, in my mind, I'm still delivering the packages to the post office myself. You see what I'm saying? I still have all the memories of hoping that one day we could afford a forklift. So obviously my intellectual brain knows that's just not the case anymore. We have 560,000 employees all over the world. And I know we should be scrutinized and I think it's true that big government institutions should be scrutinized, big nonprofit institutions should be scrutinized, big universities should be scrutinized. It just makes sense. And that's, by the way, why the work at The Washington Post and all other great newspapers around the world do is so important. They are often the ones doing that initial scrutiny, even before the government agencies do.

Döpfner: The general sentiment concerning the big innovative tech companies has changed. Facebook, Google, Amazon, Apple: They used to be seen as the nice guys in T-shirts who are saving the world. Now they are sometimes portrayed as the evil of the world. And the debate about the Big 4 or the Big 5 is heating up: Professors like Scott Galloway and The Economist are suggesting a split-up, other powerful people like George Soros are giving very critical speeches at Davos, and the EU Commission is taking pretty tough positions here. Do you think that there is a change in the mindset of society, and how should the big tech companies, how should Amazon deal with that?

Bezos: I think it's a natural instinct. I think we humans, especially in the Western world, and especially inside democracies, are wired to be skeptical

and mindful of large institutions of any kind. We're skeptical always of our government in the United States, state governments, and local governments. I assume it's similar in Germany. It's healthy, because they're big, powerful institutions – the police, the military, or whatever it is. It doesn't mean you don't trust them, or that they're bad or evil or anything like that. It's just that they have a lot of power and control, and so you want to inspect them. Maybe that's a better word. You kind of want to always be inspecting them. And if you look at the big tech companies, they have gotten large enough that they need and are going to be inspected. And by the way, it's not personal. I think you can go astray on this if you're the founder of a company – one of these big tech companies, or any other big institution. If you go astray on this, you might start to take it personally. Like, "Why are you someone inspecting me?" And I wish that people would just say, "Yes, it's fine."

Döpfner: The whole attitude toward data protection and privacy has always been different between Europe and the United States, but it is also at the moment – in the context of events like Cambridge Analytica – changing in the United States. Is this criticism hysterical or is it appropriate? And what are the consequences for a company like Amazon?

Bezos: I think this is one of the great questions of our age. I think of the internet like this big, new, powerful technology. It's horizontal. It affects every industry. And if you think of it even more broadly, it's tech and machine learning, big data, and all these kinds of things. These are big, horizontal, powerful technologies. And in my view the internet is quite old at this point; we've been around a long time. But that scale has only been around 10 or 15 years. You know, go back in time 20 years and it was tiny. And so that scale has only been around 10 or 15 years. And so we haven't learned as a civilization and a human species how to operate that yet. We as a civilization are still figuring all of that out. It gives us fantastic capabilities. The fact that I can look up almost anything on Wikipedia in five seconds is an unbelievable capability that just simply didn't exist 20 years ago. And so on and so on. But we're also finding out that these powerful tools enable some very bad things, too, like letting authoritarian governments interfere in free democratic elections in the world. This is an incredibly scary thing.

Döpfner: So you are advocating a balance of, say, entrepreneurs who are really moving their businesses forward, politicians and regulators who are defining a certain framework, society and journalists who are asking unpleasant questions?

Bezos: My view on Amazon's role in this, which is what you asked me. I think, first of all, we have a duty on behalf of society to try and help educate any regulators, to give them our point of view sincerely, without any cynicism or skepticism. This is what we believe. But it's not ultimately our decision, so we will work with any set of regulations that we're given. Ultimately, society decides that. We will follow those rules regardless of the impact they have on our business. And we will find a new way, if need be, to delight customers.

What you have to worry about and the problem I would not want to see happen is that you don't want to block innovation and invention. One of the unintended consequences often of regulation is that it really favors the incumbents. Now, Amazon at this point is an incumbent, so maybe I should be happy about that. But I wouldn't be because I think for society, you really want to see continued progress. To the degree that we have regulation, we want to be sure that it is incenting innovation and not blocking it, while at the same time, regarding data security, privacy, and encryption – how do you safeguard people's physical safety against terrorists and bad actors all over the world, and how do you balance that against privacy? These are very challenging questions. And we're not going to answer them, even in a few years. I think it's going to be an ongoing thing for quite a while.

Döpfner: Data security and privacy are going to be competitive advantages for companies or a disadvantage for those who are not dealing respectfully and responsibly with data.

Bezos: I 100% agree with this. I think with customers one of the reasons we have been able to extend into new business areas and pursue new product categories. Going way back, we just sold books, and then we started selling music and DVDs and electronics and toys and so on, and then we extended into electronic reading with Kindle. The reason customers have been receptive in large part to our new initiatives is because we have worked hard to earn their trust with them. Earning trust with customers is a valuable

business asset. And if you mistreat their data, they will know, they will figure it out. Customers are very smart. You should never underestimate customers.

Döpfner: You're preparing a second headquarter. It's going to be in the US. Why didn't you consider doing it in Europe?

Bezos: I wanted it in a time zone either in Canada, the US, or Mexico.

Döpfner: So it's not an anti-Europe decision?

Bezos: No, absolutely not.

Döpfner: When you bought The Post there were people saying, "Well, that's just a personal toy – he wants to have some political influence in Washington." Other people thought it was a new long-term element of your strategy. So what was it?

Bezos: You can explain things to people, but you can't understand things to people. All I can do is say really what my thought process was. I was not looking to buy a newspaper. It had never even crossed my mind. So when the opportunity came up, because I had known Don Graham at that point for 15 years. And any of you who are lucky enough to know Don know that he is the most honorable gentleman that you'll ever meet. You know him very well. He's a remarkable guy. He so loved The Post that he believed, even if this was a huge personal sacrifice for him, because it had been in his family for so long, that he needed to find a new home for it.

I think there were certain purchasers he was hoping would not end up buying The Post, because he wanted it to remain independent. So when he approached me with this I said, "You know, I'm the wrong guy, because I don't know anything about the newspaper business." And he said, "That's OK, because we have a lot of people at The Post who know a lot about the newspaper business. What we really need is somebody who knows something more about the internet. The Post was in a very difficult financial position at that time. So for me I had to decide, "Was it hopeless?" I didn't believe it was hopeless. I was optimistic that The Post could turn around. And then, second, I had to decide, "Did I want to put my own time and

energy into this?" That, for me – I just had to ask the simple question: "Is it an important institution?" The answer to that question is yes. It was very obvious to me as soon as I thought about it that way, it was like OK, I think I actually can help in two ways. I can provide financial resources while this turn around occurs. And I can also help with my internet knowledge. And then, is it an institution worth saving? You bet! It's the most important newspaper in the most important capital city in the Western world. I'd be crazy not to save that newspaper. I'm going to be very happy when I'm 80 that I made that decision.

Döpfner: Have you seen Steven Spielberg's film "The Post"? And how did you like it?

Bezos: I have, yeah. I've seen it a couple of times.

Döpfner: What's the lesson that you learned from that, and could you imagine also to buy other newspapers?

Bezos: No, I get that request monthly. I really do. I tell them, no. The Post is it for me. I'm not interested in buying other newspapers. I watched that movie, and it's helpful. I loved that movie, and also reading Katherine Graham's memoir, which won a Pulitzer Prize and is an amazing book. Because it gets me ready. You know, as the owner of The Post, I know that at times The Post is going to write stories that are going to make very powerful people very unhappy.

Döpfner: Are you upset if the Post journalists are writing critical stories about Amazon?

Bezos: No, I'm not upset at all.

Döpfner: Did or would you ever interfere?

Bezos: Never. I would be humiliated to interfere. I would be so embarrassed. I would turn bright red. It has nothing to do with ... I don't even get so far... I just don't want to. It would feel icky; it would feel gross. It would be one of those things when I'm 80 years old I would be so unhappy with myself if I had interfered. Why would I? I want that paper to be independent. We have

a fantastic editor in Marty Baron. We have a fantastic publisher in Fred Ryan. The head of our technology team, a guy named Shailesh, is fantastic. They don't need my help in the newsroom for sure. First of all, that's also an expert's job. It would be like me getting on the airplane and going up to the front of the plane and saying to the pilot, "You should move aside — let me do this!"

Döpfner: Well, you are not flying airplanes, but you are sending rockets to the orbit. Could you share with us the vision of Blue Origin and the idea of space tourism with reusable rockets?

Bezos: Yes. This is super important to me, and I believe on the longest timeframe — and really here I'm thinking of a timeframe of a couple of hundred years, so over millions of decades — I believe and I get increasing conviction with every passing year, that Blue Origin, the space company, is the most important work that I'm doing. And so there is a whole plan for Blue Origin.

Döpfner: Really, so you'd say retail, e-commerce, clouds, publishing — that's all less relevant than the space project?

Bezos: Yes, and I'll tell you why.

First of all, of course, I'm interested in space, because I'm passionate about it. I've been studying it and thinking about it since I was a 5-year-old boy. But that is not why I'm pursuing this work. I'm pursuing this work, because I believe if we don't we will eventually end up with a civilization of stasis, which I find very demoralizing. I don't want my great-grandchildren's great-grandchildren to live in a civilization of stasis. We all enjoy a dynamic civilization of growth and change. Let's think about what powers that. We are not really energy-constrained.

Let me give you just a couple of numbers. If you take your body, your metabolic rate as a human, it's just an animal. You eat food, that's your metabolism. You burn about 100 watts. Your power, your body, is the same as a 100-watt lightbulb. We're incredibly efficient. Your brain is about 60 watts of that. Amazing. But if you extrapolate in developed countries where we use a lot of energy, on average in developed countries our civilizational

metabolic rate is 11 000 watts. So, in a natural state, where we're animals, we're only using 100 watts. In our actual developed-world state, we're using 11,000 watts. And it's growing. For a century or more, it's been compounding at a few percent a year, our energy usage as a civilization.

Now if you take baseline energy usage globally across the whole world and compound it at just a few percent a year for just a few hundred years, you have to cover the entire surface of the Earth in solar cells. That's the real energy crisis. And it's happening soon. And by soon, I mean within just a few 100 years. We don't actually have that much time. So what can you do? Well, you can have a life of stasis, where you cap how much energy we get to use. You have to work only on efficiency. By the way, we've always been working on energy efficiency, and still we grow our energy usage. It's not like we have been squandering energy. We have been getting better at using it with every passing decade. So, stasis would be very bad, I think.

Now take the scenario, where you move out into the solar system. The solar system can easily support a trillion humans. And if we had a trillion humans, we would have a thousand Einsteins and a thousand Mozarts and unlimited, for all practical purposes, resources and solar power unlimited for all practical purposes. That's the world that I want my great-grandchildren's great-grandchildren to live in.

By the way, I believe that in that timeframe we will move all heavy industry off of Earth and Earth will be zoned residential and light industry. It will basically be a very beautiful planet. We have sent robotic probes to every planet in this solar system now and believe me this is the best one.

Döpfner: Jeff, when can I buy the first ticket to do a little space tour?

Bezos: We are going to be ... so the first tourism vehicle — we won't be selling tickets yet — but we may put humans in it at the end of this year or at the beginning of next year. We are very close. We are building a very large orbital vehicle. We have been working on that for more than five years. It will fly for the first time in 2020. The key is reusability. This civilization I'm talking about of getting comfortable living and working in space and having millions of people and then billions of people and then finally a trillion

people in space. You can't do that with space vehicles that you use once and then throw away. It's a ridiculous, costly way to get into space.

Döpfner: The most recent thing you are planning seems to be home robots. I assume it is more than Alexa walking. What is the vision behind it?

Bezos: I saw that rumor in the press, and I can't comment on that.

Döpfner: So I see it seems to be very serious. Jeff, you are one of the most long-term-thinking entrepreneurs when it comes to companies, products, and services. If it is about philanthropy, you recently said that you are a very short-term thinker. You really want to deal with the now and here. I think that is also very innovative. Can you explain that approach?

Bezos: I am going to end up doing a mixture of things. We started doing in Seattle, there is a homeless shelter called Mary's Place, run by a woman named Marty. And that has really impacted my thinking on this issue, because what I'm seeing is — I'm in favor of all — long-term-oriented philanthropy is also very good idea. I'm not against that. I'm finding I am very motivated by the here and now. Seeing a lot of the homelessness that Mary's Place works on is transient homelessness. When you go study homelessness, there are a bunch of causes of homelessness. Mental-incapacity issues are a very hard-to-cure problem. Serious drug addictions are very hard-to-cure problems. But there is another bucket of homelessness is this transient homelessness. Which is, you know, a woman with kids, the father runs away and he was the only person providing any income. They have no support system; they have no family. That's transient homelessness. You can really help that person, and by the way, you only have to help them for six to nine months. You get them trained. You get them a job. They are perfectly productive members of society.

Döpfner: Last week we had Bill Gates for dinner here and he said in a self-ironic manner that he has a ridiculous amount of money and it is so hard to find appropriate ways to spend that money reasonably and to do good with the money. So what does money mean for you, being the first person in history who has a net worth of a three-digit amount of billions.

Bezos: The only way that I can see to deploy this much financial resource is by converting my Amazon winnings into space travel. That is basically it. Blue Origin is expensive enough to be able to use that fortune. I am liquidating about \$1 billion a year of Amazon stock to fund Blue Origin. And I plan to continue to do that for a long time. Because you're right, you're not going to spend it on a second dinner out. That's not what we are talking about. I am very lucky that I feel like I have a mission-driven purpose with Blue Origin that is, I think, incredibly important for civilization long term. And I am going to use my financial lottery winnings from Amazon to fund that.

Döpfner: With regard to your personal lifestyle, there are no guilty pleasures, unreasonable things that you do with money?

Bezos: I don't think they're that guilty. I mean, I have lots of pleasures, and we just came back from an amazing trip with the kids, MacKenzie and I did. She planned the whole thing. It was her birthday trip, but she planned it all. And we went to Norway for three days and we stayed in an ice hotel. We went dogsledding. We went to a wolf preserve and actually got to interact with timber wolves. It really was an incredible vacation, a pretty incredible holiday. We got it all done in three and a half days. It was amazing.

Döpfner: You are a family man. Your kids are extremely important for you. You seem to be the ideal father. If we were to talk to your kids, what would they criticize about their dad.

Bezos: They would make fun of my singing.

Döpfner: Oh, OK. Can we ... ?

Bezos: No, oh God no. They would make fun of my inability to remember exact words. I am always quoting Churchill or something and am getting it wrong. And they're, like, "That's not even close to what Churchill said!" They would probably, depending on the moment, they might criticize my laugh. They're kids! I am lucky. I have very good relationship with them. This work-life harmony thing is what I try to teach young employees and actually senior executives at Amazon too. But especially the people coming in. I get asked about work-life balance all the time. And my view is, that's a

debilitating phrase because it implies there's a strict trade-off. And the reality is, if I am happy at home, I come into the office with tremendous energy. And if I am happy at work, I come home with tremendous energy. It actually is a circle; it's not a balance. And I think that is worth everybody paying attention to it. You never want to be that guy – and we all have a coworker who's that person – who as soon as they come into a meeting they drain all the energy out of the room. You can just feel the energy go *whoosh!* You don't want to be that guy. You want to come into the office and give everyone a kick in their step.

Döpfner: Jeff, thank you very much.

4. CHAPTER 2: BILL GATES

BILL GATES

Cofounder, Bill & Melinda Gates Foundation

Real Time Net Worth	—	as of 6/10/18	-	\$93.4 B
2018 Billionaires Net Worth	—	as of 3/6/18	-	\$90 B

- With his wife Melinda, Bill Gates chairs the Bill & Melinda Gates Foundation, the world's largest private charitable foundation.
- The foundation works to save lives and improve global health, and is working with Rotary International to eliminate polio.
- Gates has sold or given away much of his stake in Microsoft -- he owns just over 1% of shares -- and invested in a mix of stocks and other assets.
- He remains a board member of Microsoft, the software firm he founded with Paul Allen in 1975.
- In late 2016, Gates announced the launch of a \$1 billion Breakthrough Energy investment fund with about 20 other people.

Bill Gates Advice

“Don’t compare yourself with anyone in this world...if you do so, you are insulting yourself”.

“I choose a lazy person to do a hard job. Because a lazy person will find an easy way to do it.”

“Success is a lousy teacher. It seduces smart people into thinking they can’t lose.”

“If you mess up, it’s not your parents’ fault, so don’t whine about your mistakes – learn from them.”

“We make the future sustainable when we invest in the poor, not when we insist on their suffering.”

“It’s fine to celebrate success but it is more important to heed the lessons of failure.”

“We all need people who will give us feedback. That’s how we improve.”

“The most amazing philanthropists are people who are actually making a significant sacrifice. “

We’ve got to put a lot of money into changing behavior.

“I believe that if you show people the problems and you show them the solutions they will be moved to act. “

“Patience is a key element of success. “

“People always fear change. People feared electricity when it was invented, didn’t they? “

“If you can’t make it good, at least make it look good. “

“I have been struck again and again by how important measurement is to improving the human condition.”

“We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don’t let yourself be lulled into inaction.”

“To win big, you sometimes have to take big risks.”

“If geek means you’re willing to study things, and if you think science and engineering matter, I plead guilty. If your culture doesn’t like geeks, you are in real trouble.”

‘I don’t know’ has become ‘I don’t know yet’.

“Your most unhappy customers are your greatest source of learning.”

“Flipping burgers is not beneath your dignity. Your Grandparents had a different word for burger flipping – they called it opportunity.”

“This is a fantastic time to be entering the business world, because business is going to change more in the next 10 years than it has in the last 50.”

“The world won’t care about your self-esteem. The world will expect you to accomplish something BEFORE you feel good about yourself.”

“I failed in some subjects in exam, but my friend passed in all. Now he is an engineer in Microsoft and I am the owner of Microsoft.”

“I really had a lot of dreams when I was a kid, and I think that a great deal of that grew out of the fact that I had a chance to read a lot.”

“Everyone needs a coach. It doesn’t matter whether you’re a basketball player, a tennis player, a gymnast or a bridge player.”

“What’s amazing is, if young people understood how doing well in school makes the rest of their life so much interesting, they would be more motivated. It’s so far away in time that they can’t appreciate what it means for their whole life.”

“New ideas, surprising the marketplace, so good engineering and good business are one in the same.”

“I believe in innovation and that the way you get innovation is you fund research and you learn the basic facts.”

“Our success has really been based on partnerships from the beginning.”

“Don’t make the same decision twice. Spend time and thought to make a solid decision the first time so that you don’t revisit the issue unnecessarily.”

“Reward worthy failure–experimentation.”

“We start life with many big dreams–things we want to accomplish, create, build and experience. But if you ask anyone past the age of 40 what happened to all the dreams they had, they will most likely answer; Life.”

“Life has a tendency to just happen. But it happens because we make choices. The life you create and design for yourself is going to accumulate from the choices you make over time. Sure, there are unexpected things that can derail

dreams. But we can control where we put our focus, and if we choose to put one dream ahead of another.”

“I can understand wanting to have millions of dollars, there’s a certain freedom, meaningful freedom, that comes with that. ‘But once you get much beyond that, I have to tell you, it’s the same hamburger.’”

“Life is not divided into terms. You don’t get summers off, and very few employers are interested in helping you “find yourself”. Do that in your own time.”

Bill Gate Exclusive Interview

Some 40 years ago, Bill Gates co-founded Microsoft and set out on a road to become the richest man in the world. But his goal was not money at the time; it was to revolutionize the world by putting a computer on every desk.

Gates was focused, driven, and most of all, thinking big. He’s offered up some valuable advice over the years, and when a man worth \$79.2 billion speaks, you should probably listen.

Educate yourself

Wait, didn’t Gates drop out of Harvard? Yes, he did. But in a 2014 Reddit Ask Me Anything session, someone asked him: “What is your best personal financial advice for people who make under \$100,000 a year?”

His answer?

“Invest in your education.”

That seems like good advice, considering that people 25 and older with a bachelor’s degree earn an average of 40 percent more than those with only a high school diploma, according to the Bureau of Labor Statistics.

In a separate event, Gates told Harvard students that when he was in college, he was a procrastinator. He said that he was the guy who never did any work, never went to class, and at the last minute would cram for a test. His fellow students thought it was funny, he said, and Gates enjoyed the attention. Then he went into business and grew serious.

Embrace your critics

In his 1999 book, “Business @the Speed of Thought,” Gates wrote about the importance of negative feedback. He said complaints and dissatisfaction were to be studied in order to do better.

“Your most unhappy customers are your greatest sources of learning,” he wrote. “Embrace bad news to learn where you need the most improvement.”

Learn to say no

No matter how ambitious you are, there are still only 24 hours in anyone’s day. And often, the difference between the successful and unsuccessful is how they spend those hours.

No one knows that better than the richest man in the world, who, in a video interview at Harvard University, repeated the words his friend Warren Buffett said to him: “You have to be good at saying no.”

Gates said that was among the best advice he had ever received. He explained that saying no allows you to concentrate on the things that really make a difference.

Be optimistic

Gates and his wife, Melinda, gave a commencement speech to Stanford University students in 2013. He spoke at length about his faith in optimism. Using his philanthropic work in Africa as an example, he told students that they needed to be optimistic in order to achieve their goals.

“Optimism is often dismissed as false hope. But there is also false hopelessness,” he said.

Think critically about your success

In his 1995 book “The Road Ahead,” Gates wrote that failure often teaches you more about succeeding than success.

“Success is a lousy teacher. It seduces smart people into thinking they can’t lose,” he wrote.

He went on to say, “What seems the perfect business plan or latest technology today can soon be as out-of-date as the 8-track tape player, the vacuum tube television or the mainframe computer. I’ve watched it happen.”

Measure your progress

In his 2013 annual letter for the Bill and Melinda Gates Foundation, Gates wrote about a book, “The Most Powerful Idea in the World.” It was about the invention of the steam engine, but Gates drew an important lesson from it.

“You can achieve amazing progress if you set a clear goal and find a measure that will drive progress toward that goal,” he said.

That seemed like pretty basic advice, he said, but added that he was amazed at how seldom it was followed and how hard it was to get right.

Ques. 1: Hello Bill Gates. What is your idea of success?

Bill Gates: Warren Buffett has always said the measure is whether the people close to you are happy and love you. It is also nice to feel like you made a difference – inventing something or raising kids or helping people in need.

Ques. 2: What do you personally find as your greatest achievement?

Bill Gates: Although the Foundation work is super promising and will be the biggest thing over the decades ahead I still think the chance to be part of the software revolution empowering people was the biggest thing I have gotten to do.

Right now I am very focused on making sure we successfully eradicate polio – that will be amazing if we do it – as good as shipping even the best software product.

Ques. 3: If you could give 19-year-old Bill Gates some advice, what would it be?

Bill Gates: I would explain that smartness is not single dimensional and not quite as important as I thought it was back then. I would say you might explore the developing world before you get into your forties. I wasn't very good socially back then but I am not sure there is advice that would fix that – maybe I had to be awkward and just grow up....

Ques. 4: What do you think is the most pressing issue that we could feasibly solve in the next ten years?

Bill Gates: A lot of people feel a sense of isolation. I still wonder if digital tools can help people find opportunities to get together with others – not Tinder but more like adults who want to mentor kids or hang out with each other. It is great that kids go off and pursue opportunities but when you get communities where the economy is weak and a lot of young people have left then something should be done to help.

Ques. 5: What are you most curious about, Bill?

Bill Gates: I still find the creation of life and the way the brain works the most fascinating areas. Nick Lane has some great books exploring what we know about how life started. It is amazing how little we know about the brain still but I expect we will know a lot more in 10 years.

5. CHAPTER 3: WARREN BUFFETT

Warren Buffett

CEO, Berkshire Hathaway

Real Time Net Worth — as of 6/10/18 - \$84 B

2018 Billionaires Net Worth — as of 3/6/18 - \$84 B

- Known as the "Oracle of Omaha," Warren Buffett is one of the most successful investors of all time.
- He runs Berkshire Hathaway, which owns more than 60 companies, including insurer Geico, battery maker Duracell and restaurant chain Dairy Queen.
- The son of a U.S. congressman, he first bought stock at age 11 and first filed taxes at age 13.
- He has committed to giving more than 99% of his fortune to charity. So far he has given away nearly \$32 billion, much of it to the Gates Foundation.
- With friend Bill Gates he launched The Giving Pledge in 2010, asking billionaires to donate half their wealth to charitable causes.

Warren Buffett Advice

“Rule No.1: Never lose money. Rule No.2: Never forget rule No.1.”

“In the business world, the rear-view mirror is always clearer than the windshield.”

“Price is what you pay. Value is what you get.”

“Today people who hold cash equivalents feel comfortable. They shouldn't. They have opted for a terrible long-term asset, one that pays virtually nothing and is certain to depreciate in value.”

“Predicting rain doesn't count. Building arks does.”

“You do things when the opportunities come along. I’ve had periods in my life when I’ve had a bundle of ideas come along, and I’ve had long dry spells. If I get an idea next week, I’ll do something. If not, I won’t do a damn thing.”

“Derivatives are financial weapons of mass destruction.”

“Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it.”

“The investor of today does not profit from yesterday’s growth.”

“Basically, when you get to my age, you’ll really measure your success in life by how many of the people you want to have love you actually do love you.”

“When a management with a reputation for brilliance tackles a business with a reputation for bad economics, it is the reputation of the business that remains intact.”

“Only buy something that you’d be perfectly happy to hold if the market shut down for 10 years.”

“There seems to be some perverse human characteristic that likes to make easy things difficult.”

“Only when the tide goes out do you discover who’s been swimming naked.”

“Of the billionaires I have known, money just brings out the basic traits in them. If they were jerks before they had money, they are simply jerks with a billion dollars.”

“If you get to my age in life and nobody thinks well of you, I don’t care how big your bank account is, your life is a disaster.”

“It’s better to hang out with people better than you. Pick out associates whose behavior is better than yours and you’ll drift in that direction.”

“The big question about how people behave is whether they’ve got an Inner Scorecard or an Outer Scorecard. It helps if you can be satisfied with an Inner Scorecard.”

“When you combine ignorance and leverage, you get some pretty interesting results.”

“The business schools reward difficult complex behavior more than simple behavior, but simple behavior is more effective.”

“We believe that according the name ‘investors’ to institutions that trade actively is like calling someone who repeatedly engages in one-night stands a ‘romantic.’”

“Your premium brand had better be delivering something special, or it’s not going to get the business.”

“It’s far better to buy a wonderful company at a fair price than a fair company at a wonderful price.”

“You only have to do a very few things right in your life so long as you don’t do too many things wrong.”

“It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you’ll do things differently.”

“You have no ability, if you’re a financial institution and you’re threatened with criminal prosecution, you have no ability to negotiate.”

“Why not invest your assets in the companies you really like? As Mae West said, ‘Too much of a good thing can be wonderful.’”

“The only way to get love is to be lovable. It’s very irritating if you have a lot of money. You’d like to think you could write a check: ‘I’ll buy a million dollars’ worth of love.’ But it doesn’t work that way. The more you give love away, the more you get.”

“Time is the friend of the wonderful company, the enemy of the mediocre.”

“Honesty is a very expensive gift. Don’t expect it from cheap people.”

“The difference between successful people and really successful people is that really successful people say no to almost everything.”

“You know...you keep doing the same things and you keep getting the same result over and over again.”

“The best thing I did was to choose the right heroes.”

“You've got to keep control of your time, and you can't unless you say no. You can't let people set your agenda in life.”

“If you're in the luckiest 1% of humanity, you owe it to the rest of humanity to think about the other 99%.”

“The most important investment you can make is in yourself.”

“I insist on a lot of time being spent, almost every day, to just sit and think. That is very uncommon in American business. I read and think. So I do more reading and thinking, and make less impulse decisions than most people in business. I do it because I like this kind of life.”

“You can't make a good deal with a bad person.”

“I think you are out of your mind if you keep taking jobs that you don't like because you think it will look good on your resume. Isn't that a little like saving up sex for your old age?”

“Never invest in a business you cannot understand.”

“No matter how great the talent or efforts, some things just take time. You can't produce a baby in one month by getting nine women pregnant.”

“Never give up **searching for the job that you're passionate about**. Try to find the job you'd have if you were independently rich. Forget about the pay. When you're associating with the people that you love, doing what you love, it doesn't get any better than that.”

“The most important thing to do if you find yourself in a hole is to stop digging.”

“You ought to be able to explain why you're taking the job you're taking, why you're making the investment you're making, or whatever it may be. And if it can't stand applying pencil to paper, you'd better think it through some more. And if you can't write an intelligent answer to those questions, don't do it.”

“I’ve seen more people fail because of liquor and leverage – leverage being borrowed money. You really don’t need leverage in this world much. If you’re smart, you’re going to make a lot of money without borrowing.”

“Should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks.”

“What an investor needs is the ability to correctly evaluate selected businesses. Note that word “selected”: you don’t have to be an expert on every company, or even many. You only have to be able to evaluate companies within your circle of competence. The size of that circle is not very important; knowing its boundaries, however, is vital.”

“If you aren’t willing to own a stock for ten years, don’t even think about owning it for ten minutes. Put together a portfolio of companies whose aggregate earnings march upward over the years, and so also will the portfolio’s market value.”

Warren Buffett Exclusive Interview

Following is the full unofficial transcript of a CNBC interview with Berkshire Hathaway Chairman & CEO Warren Buffett, Microsoft Founder & Co-Chair of the Bill & Melinda Gates Foundation Bill Gates and Vice Chairman of Berkshire Hathaway Charlie Munger, on CNBC's "Squawk Box" (M-F, 6AM-9AM ET) today, Monday, May 7th. Video clips from the interview are available on CNBC.com and the full interview will be available on the Warren Buffett Archive.

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BECK QUICK: Good morning. I am in Omaha, Nebraska this morning that's the site of the Berkshire Hathaway Annual Meeting. Our special guest for the next three hours if you haven't figured it out is Berkshire Hathaway Chairman & CEO Warren Buffett. Thank you so much for being here

WARREN BUFFETT: Thanks for having me.

BECKY QUICK: You are coming off the 53rd annual shareholders meeting. It's something that we have been coming to you for years but 53 years in I just want to ask you what you thought about this weekend and how you feel about all of it? What stood out to you through this weekend?

WARREN BUFFETT: I think everybody had as much fun as ever. We had a crowd certainly equal our record. I run into thousands of shareholders and they are all having a good time and our directors have a good time here so it's sort of a Mardi Gras.

BECKY QUICK: Is there anything different about this meeting or is it the sameness that makes it so special?

WARREN BUFFETT: It is the sameness pretty much. Working with Charlie Munger, we are not going to change the format very much.

BECKY QUICK: Although Brian pointed out earlier, there were a lot of controversial subjects and things that caught people's attention and picked up a lot of news this time because you and Charlie say what you think, especially Charlie.

WARREN BUFFETT: Yeah. Charlie says exactly what he thinks and he thinks in colorful language too. Have you noticed that?

BECKY QUICK: I have noticed that. Has that changed over the years or is that more of the same?

WARREN BUFFETT: That's Charlie.

BECKY QUICK: That's Charlie since you met him?

WARREN BUFFETT: Since 1959 when I met him.

BECKY QUICK: Let's talk about some of the things that really resonated with people and maybe start where you began the annual meeting this year. It was talking to your investors and telling them a little bit about investing, some tips and lessons along the way. You kind of used it as a teaching experience at the top.

WARREN BUFFETT: Yeah normally I don't do that in fact I can't remember when I did it we just go right into questions and answers. I really thought that maybe we were giving a little bit the wrong lesson because all the questions would naturally tend to be towards current events. So this time I went back to 1942 when I bought my first stock as an illustration of all the things that have happened since 1942 we have had 14 presidents, 7 Republicans. 7 Democrats. We have had world wars, 9/11, Cuban Missile Crisis we have had all kinds of things. The best single thing you could have done on march 11th, 1942 is buy an index fund and never look at a headline never think about stocks just like you would if you buy a farm. Just do it and let the tenant farmer run it for you. If you put \$10,000 in an index fund that reinvested dividends and i paused for a moment to let the audience guess how much it would amount to. It would come to \$51 million now. The only thing you really has to believe in then is that America would win the war and that America would progress as it has since 1776 you would have to know that if America moved forward, American business would move forward. You didnt have to worry about what stock to buy or what day to get in or out. You didn't know the Federal Reserve would exist. America works.

BECKY QUICK: You went back to the day in 1942 because it was the day you purchased your first stock which to point out you were 11 years old then

WARREN BUFFETT: Yes and the headlines were terrible every day.

BECKY QUICK: This is the New York Times that day

WARREN BUFFETT: Yeah. 1942 New York Times sold for 3 cents and I also got the headlines from some days before. Everything was going badly the Philippines were going to fall within two months, things were grim in Europe, our ships were being sunk the war was bad then and that day that I bought March 11, The Dow Jones cracked 100 on the down side, it was a 2% decline which would be 500 points today the night before on march 10th I said to my dad I want to go all in I had \$125 put every bit of it in three shares of City Service Preferred. And-- which is still my personality is to get it all in and--

BECKY QUICK: As we've seen with Apple.

WARREN BUFFETT: Yeah, somewhat. And-- as I pointed out to the crowd, I bought that stock at 38 and a quarter. It was down from 84 the year before and it was down from 55 in January. I thought I'm really buying it cheap. So it went down to 27 after I bought it. And then I did-- it-- and it went up to 200 later on. But-- I sold at 40.

BECKY QUICK: You know, these are lessons that you point out because you tell investors that they shouldn't really be trying to market time. They shouldn't be looking at things. You should invest, stop paying attention and look away. But you are somebody who does pay attention to market valuation, buys more if you think a t-- a stock is cheap and less if you think it's expensive. And I'm just wondering where you think the markets stand right now. When we talked to you back in February, at the end of February-- you said you thought things were not overly priced. But you didn't find any businesses that you, yourself, felt like you could purchase. Where-- do you think things stand right now?

WARREN BUFFETT: Yeah, and we haven't bought any businesses in their entirety since I saw you last. We bought a lot of Apple as we pointed out the other day. If--I had a choice between buying the S&P index or buying the ten-year U.S. Treasury or the 30 U.S. Treasury it wouldn't take me a nanosecond to--go into stocks. Now that-- it may be because bonds are going to fall a lot-- but the investor has a choice between three or four things. They've got stocks, they've got short-term governments, got long-term bonds or long-term governments. And-- or they could buy-- they could buy a farm, piece-- a small farm or--

BECKY QUICK: What about corporate bonds--

WARREN BUFFETT: --a do--

BECKY QUICK: --too?

WARREN BUFFETT: --yeah, they can buy corporate bonds. But they-- probably don't know enough to evaluate credits. I mean, they will-- they get

enticed into junk bonds with exactly the wrong time. That's when the issuances will come and the covenant will be non-existent. And so--

BECKY QUICK: So you're talking about average investors who don't--

WARREN BUFFETT: The average investors.

BECKY QUICK: --do this for their day job.

WARREN BUFFETT: No not professional investors. But-- average investors-- but-- but 99% of people are non-professional-- investors. And-- that would-- if they had to do that to come out decently you-- can understand I'm sort of gambling on that. Or-- but the point is you don't need to do it. You-- don't have to buy exactly the right stock or b-- buy at exactly the right time. The one thing you have to avoid is buying the single wrong stock or at the single wrong time. And most people get excited about a stock or about the market after it's gone up. I mean, their neighbors made a lotto money and they know they're smarter than their neighbor. Very irritating to have a neighbor buy a new car and your spouse says, "You-- that-- that guy's smarter than you are or what." So they-- have this-- they're enticed into the market at the wrong time. And all they need to do is buy a cross section of America. And it's best to buy it over time. If the first ten years of your working life you just save and -- that's for that period of time, that-- you don't have to be the right time.

BECKY QUICK: You-- made the point even more drastically over the weekend in terms of looking at treasuries-- U.S. Treasuries-- basically said there-- there's-- never been a good time to buy it even going all the way back to the war bonds back in the '40s.

WARREN BUFFETT: Yeah, that--

BECKY QUICK: That was the--

WARREN BUFFETT: --that is true now. You bought it for patriotic reasons. But-- the government then was offering you t-- 2.9%. You bought a U.S. -- you called it a war bond. They called them defense bonds. And then savings bonds later on. But-- we were happy to buy war bonds then. And we paid \$18.75 and we got \$25 in ten years. Four-- three gets you four. That was-- in

fact, they had-- they took Take Me Out to the Ballgame and turned it into a song about buying war bonds. You know? And for each three you get four at the old bond game. And-- that's-- that-- there's a little song. And we'd sing it in school. And but-- and the government happily pointed out to you that you were getting 2.9% compounded for that. But that-- and of course now you have a situation the Federal Reserve says they want inflation of 2%. So they say they're going to try and devalue that bond by 2% a year in dollar terms. And-- it's almost always equities have been a better buy. And certainly if you're going to put away money over time when you're younger-- you can buy stocks over a conservable period of time you're not going to get the lows but you're not just going to buy at the highs. And if you buy a cross-section-- well, like I say, you turn \$10,000 into \$51 million and you'd never have had to look at a financial page again or listen to a broker.

BECKY QUICK: Going back to this idea though that the markets, you think, are a good place for average investors right now. The S&P 500 is a good place. If you're a professional investor, if you're somebody like you, you look at prices and you think what?

WARREN BUFFETT: Well, I look at prices and I-- find it hard to buy things. And incidentally professional investors aren't going to do better than the average-- amateur-- in almost all cases. But I-- don't find things easily. I mean, we were on and-- in March of 2009 when the Dow was in the 660s or 670s. And-- we talked about it then. I mean, there's-- this was the bargain counter. And-- it continued for a long time. Stocks have been very, very cheap. But you have to measure-- you have to measure 'em against alternatives. I mean, if -- government bonds got to 15% like they were in 1982 that's a different equation against stocks than exist now.

BECKY QUICK: You've had periods in the past though where you have said stocks look expensive to you or that we look like we're in bubble type territory. This is not one of those times I take it?

WARREN BUFFETT: That-- this is not one of those times. That-- now if government bonds go to 7% or 8% which means if you own a long bond now you'd get killed-- stock you bought now will not necessarily look attractive. It-- probably won't be attractive.

BECKY QUICK: And--

WARREN BUFFETT: Interest rates are like gravity. If interest rates are 1% and they're going to be that for 100 years obviously anything that yields you 2% or 3% is going to do way better. But I don't think they're going to be 1% for 100 years.

BECKY QUICK: Just to get into the nuances again though.

WARREN BUFFETT: Yeah.

BECKY QUICK: What-- you're talking broadly about issues in terms of how you see the stock market as a great place for average investors. Maybe a place where you're not finding all that many bargains. And when you look to buy a company all in, I mean-- I've spoken with some people here this weekend who know an awful lot about M&A, who know a lot about private businesses, what they're valued out at different things you'd say, that when they're looking at prices things look really rich. You're talking about prices that are 15% to 20% above what the fair price of base-- ha-- does that match up with what you see--

WARREN BUFFETT: I would--

BECKY QUICK: --right now?

WARREN BUFFETT: --I would agree with that. That's why we haven't bought any businesses for quite a while. In addition to the normal factors in the public market too, when people buy businesses these days frequently-- they're being bought by people that are-- borrowing 60% or 70% of the money, maybe even more.

BECKY QUICK: You're talking about private equity?

WARREN BUFFETT: Mostly private equity but not exclusively private equity. And if some-- we're not willing to calculate our returns based on borrowing money at 70%-- of the purchase price. That may be the best thing to do. But-- we--calculate things generally on an all-equity basis. And we are not competitive. And-- then you've got a general euphoria that-- to some

degree. The private equity funds have to put the money out. And it's kind of interesting what they do because-- they take the money which they get usually from institutional investors and then they buy a company in the market from some of those same institutional investors except pay a premium and they say we can run it better if it's private. Then they hold it for a while. And then they sell it back to the market in these private institutional investors having-- with them having paid substantial fees in the meantime and say it's better to be public. I mean, it's-- an interesting exercise.

BECKY QUICK: Let's talk about some of the things that came up this weekend that really caught people's attention and some of the more controversial statements that came out. At one point this weekend you said that Bitcoin and this is was based-- you were asked-- Charlie said, "Bitcoin's like rat poison." You were asked about that comment. And you said, "Well, it's probably more like-- rat poison squared." Charlie went on in the meeting to then basically call Bitcoin turds.

WARREN BUFFETT: He--is an expressive sort, isn't he? Maybe when he gets a little older he'll mature.

BECKY QUICK: I just want to ask you about that because it sparked so much controversy. And it's-- particularly on Twitter and some of the places where you might expect people who are trading in-- in cryptocurrency-- to be pretty-- loud about what they heard. What-- is it about Bitcoin that gets you guys so fired up?

WARREN BUFFETT: Well, when you buy a farm-- you look at the crop every year and what prices are and you decide whether it was satisfactory investment, I mean, you look to the asset itself and what it produces for you. When we buy a business we look at what the business earns and decide how we feel about it in terms of what we paid. But we are buying something that at the end of the period we not only have what we bought in the first place but we have something that the asset produced. And when you buy non-productive assets-- all you're counting on is whether the next person is going to pay you more because they're even more excited about another next person coming along. But the asset itself is creating nothing. One of the interesting things-- for example is gold. If you go back to the time of Christ

and you look at how many hours of labor you had to give up in order to buy an ounce of gold and you take it forward to now you'll find a compound right, maybe 1/10 or 2/10 of 1%. You know, and then you have to insure it during that time and make sure, you know, somebody doesn't steal it from you and every-- but it doesn't produce anything. And-- productive assets-- you may have even paid too much for a productive asset. But I bought a farm in the 1980s. And--every year look at how much it produced in the way of soybeans and corn. And at the end of that period I've still got the farm and I've got some significant income off of it. Apartment house, operating business. But-- if you and I buy various cryptocurrency they're not going to multiply-- they're not going to be a bunch of rabbits sitting there in front of us. They-- they're just going to sit there. And I got a whole-- next time you get more excited after I bought it from you and then maybe I'll get more excited it and buy it from you. And actually we could-- we could sit in the house by ourselves and we could keep running up the price between the two of us. But at the end of the time there's one Bitcoin sitting there. And now we got to find somebody else. And-- they come to an end. I mean, those--

BECKY QUICK: That-- that, I mean, that's a greater fool theory. That's what you're saying?

WARREN BUFFETT: It-- well, yeah. It's-- buying something because you expect the pool of people who want to buy it because they want to sell it to somebody else will grow. And-- you know, it's-- wonderful because it does create a rising price. Does create more buyers and people think, "I've got to get in on this." And--it's better if they don't understand it. That's the other thing about non-product-- if you don't understand it you get much more excited than if you understand it. I mean, if you buy a bond that says it's going to pay you 4% a year you're not going to get any pleasant surprises. It only pay you 4% a year. But if-- you can have anything you want to imagine if you just look at something and say, "That's magic." You can do it with sharks teeth or seashells or anything. And-- you know, they did it with tulips in the 17th century in-- Amsterdam. And-- they'll do it again. I mean, people-- they like to speculate. They like to gamble. And-- if you can get something-- particularly if you have something half plausible going on. If you had bought gold in 1942 and you said, "We might lose the war. We might have

to run off to some other country and, you know, so let's put our assets in gold," you would have less than a penny for every dollar you got from owning stocks. Less than a penny. Now somebody calls that a stored value. I mean, I think they're delusionary.

BECKY QUICK: Andrew has a question too. Andrew?

ANDREW ROSS SORKIN: Hey, Warren, related to this-- issue of Bitcoin, you saw that Goldman Sachs just last week announced that they were going to-- create a-- effectively a trading operation around cryptocurrencies and Bitcoin in particular. You've been an investor-- in Goldman. What do you think of their decision to do that?

WARREN BUFFETT: Well, they probably think that lots of people are going to get very excited about, well, and-- maybe already are. But they think there's money to be made trading them. I don't think they're expressing an opinion on the ultimate value. I would be very surprised if the top partners of Goldman are selling their Goldman stock and putting it into Bitcoin. But I want to cover the subject now because my friend, Charlie, will come on at 8:00. There's no telling what he will say.

BECKY QUICK: Well, that-- that's my whole entire point. I do want to ask Charlie about it because I think when he talked about the turds he was referring to this he said, "If you're trading this it's like watching other people trading turds and deciding you want to get a piece of that."

WARREN BUFFETT: Well, you're not going to get me to comment on that.

BECKY QUICK: Hopefully Charlie's not awake and is not--

WARREN BUFFETT: Well, the truth is--

BECKY QUICK: --watching right now.

WARREN BUFFETT: --there's people who do trade on very crazy things over time. You know, imagine people selling their homes to buy a tulip in Amsterdam. If people think they're going to make money the next day and, worse yet, if they think somebody else that they know is going to make

money and they aren't going to make money they-- it just draws people in. You know, I can whisper something on this program and kind of the more sillier it was the more it right react because there's no quantitative limits. If you buy a stock and you say, "Well, I'll buy it at 15 times earnings but I won't buy it at 20 times earnings." But when you get into something that doesn't produce anything, you know, there's no checkpoints there. There's nothing to reference it to. It's just-- it's gone up and it will keep going up

BECKY QUICK: Now I will say when I was tweeting the things that you and Charlie were saying about this weekend all I was doing was repeating what you were saying. And people were coming back with some pretty angry comments-- --including things like, "I bought a house-- buying cryptocurrency. You're outdated on this." They said a lot meaner things that-- "You don't understand it so you should shut up about it." What-- you're not.

WARREN BUFFETT: Well, the interesting thing is if you're investing you or other people. You--

BECKY QUICK: What--

WARREN BUFFETT: --if I'm investing in Apple-- I love the idea of people saying Apple is terrible 'cause I want the stock to go down because the repurchasing shares and my interest will go up faster. You-- don't get defensive if you're buying something that produces. You don't buy a farm and get real defensive if somebody comes and says, "You shouldn't buy a farm." If somebody says, "I watch the crops go and I can see what I sell-- I'm selling my crop for at the end. And I'm making s-- 4% or 8% on my investment." You're getting defensive when you look at this thing and it doesn't do anything. You're just hoping somebody comes along to pay you more tomorrow and the next day. And you're dependent on more people-- the mob growing, you know, basically. So-- those people do get angry. But-- the person that bought a house with it, I would say they did the very right thing. They sold it.

BECKY QUICK: They sold it. They sold it and bought something else with it. Hey, Joe-- you have a comment to?

JOE KERNEN: Just-- I was saying in it-- but look how long it took you to buy Apple though, Warren. I mean, you finally did buy it. But-- you needed to be, you know, it needed-- it just took a long time. I don't know what happens with Bitcoin. But you see these-- I don't understand it either. But-- it's got quite a following among all these people that, you know, think it's going to 25,000 or 100,000. I mean, it did take you-- you've never embraced-- technology as much as a lot of other things that you understood a lot better. And you're finally in Apple. But what did you finally buy Apple? It's was already probably a \$700 billion company when you finally bought it. Could-- you know, would been nice to buy it a \$100 billion or \$50 billion.

WARREN BUFFETT: Yeah. I say about buying Apple is I don't care whether anybody ever mentions Apple again. I mean-- you know, whereas with Bitcoin you do-- people that buy it want to taut it because they want more people joining the crowd. So they want to come on and say, "You buy Bitcoin," because the only-- they're going to lose money unless the crowd gathers. If the crowd starts to dispersing-- so they've got every reason in the world to taut it. When I buy Apple I know that Apple is going to repurchase a lot of shares. So right now Apple had whatever it did at the quarter 4,927,000,000 shares or 923 million, whatever it was. And we own about 5%. But I know I don't have to do a thing. And probably in a couple years we'll own 6% without laying out another dollar. Well, I love the idea of having 5% go to 6%. And the cheaper the stock is, the more they will get for their money when they're buying it in. So there's-- no reason at all for me to encourage other people--

JOE KERNEN: Hey-- Warren--

WARREN BUFFETT: --to buy Apple. I'm--

JOE KERNEN: -- I hadn't heard anyone say City Service in a long time. Was that-- it was-- it was a preferred stock? I-- I don't-- it must've been convertible. Wasn't it or something to have huge price -- swings like that

WARREN BUFFETT: Now what---- happened, Joe, was that City Service started out as a utility company like it sounds. Way-- back around 1910, sometime around then.

JOE KERNEN: Right.

WARREN BUFFETT: But then they bought it-- they started developing natural gas and then they found oil in connection with it. So over a period of time it still = it was a big utility company. It-- morphed into a basic energy company-- productive company. But they issued when they were a utility primarily-- they issued a \$6 preferred that-- cumulative preferred. And it quit paying dividends in 1932-- a lot of people, they ran out money then. So - from 1932 forward you had this preferred which, \$100 par, which was accumulating at \$6. A rarity just-- the year before I bought it they actually made a \$3 payment on a rarity. But that still was less than \$6 coupon. And then they eventually called it at 200 and something which was-- \$100 par, probably a call premium plus all the rarities. It was not convertible.

JOE KERNEN: I see. That's pretty amazing that you were 11 years old when you-- and what a history City Service had. I mean, there's a boom ticking and a Pacman defense, it was bought by Oxy. And then part of their gas stations were bought by Venezuela, remember? And they were given free gas around it. And-- the Red Sox, the big--

WARREN BUFFETT: Sure.

JOE KERNEN: --CITGO sign up at-- near the-- baseball stadium. It's amazing--

WARREN BUFFETT: Right, right. It became-- a major oil company.

JOE KERNEN: Yeah.

WARREN BUFFETT: They actually I think sold the preferred door to door-- way back in the-- in the '20s, sometime like that too. But--

JOE KERNEN: Quit talking about buying--

WARREN BUFFETT: --it was cheap. You know.

JOE KERNEN: -- every time you say bought the farm I'm like, "What--" I'm, like, not listening for a second and then you go, "I'm buying a farm-- buying-

-- like, stop talking about that. I looked up what-- that's a weird-- expression that came from-- it's very morbid-- what it actually came from. But-- I'm not even going to go into it. But it-- there's-- a-- derivation for what it came from when I guess the guys-- they want to come back from a war and they're going to buy a farm when they do. And unfortunately it's their family that ends up buying it from insurance proceeds or something. It's horrible. But-- anyway--
- yeah, let's move onto-- Bitcoin and--

BECKY QUICK: To different assets--

JOE KERNEN: --Apple.

BECKY QUICK: --different assets on this.

WARREN BUFFETT: The War-- World War II there wasn't go ahead actually.

BECKY QUICK: Go-- ahead, go.

WARREN BUFFETT: It was very interesting in one sense because John Maynard Keynes had written in 1935 or 1936 The General Theory. And-- Keynes in economics of-- around my household everybody thought it was a total fraud and all of that. World War II forced the country into this huge Keynesian type financing. I mean, we had the deficit financed in a way that was incredible. And-the debt went up to 120% of GDP which is considerably higher than it is now from a figure far lower than that. And we sent millions of the most productive people-- we took a lot of the economy. We started building things that we dumped into the sea. We did it on borrowed money. And it created the runway for, you know, the greatest economic progress the world's ever seen.

JOE KERNEN: That

BECKY QUICK: Warren, let me ask you one more question on-- oh go ahead.

JOE KERNEN: No I-- so that almost-- so is that, like, an endorsement of Keynesian economics, Warren?

WARREN BUFFETT: It certainly worked in World War II. I mean, we would-- we-- I don't-- I do not think the '40s and '50s and '60s would have developed remotely like they did without the huge deficit spending. And-- all these events that, you know, we were trying-- we were struggling to get out of the '30s. And-- then they just turned a spigot loose which they had to do and build a whole bunch of things they dumped in the sea. You know, they-- weren't building refrigerators or cars or anything like that. They-- and-- there were a lot of people that predicted a-- one of the things that I do remember very well was that a lot of very respected figures that we would come out and have a Depression post-World War-- II just like we had post-World War I. So-- that was a prevailing sort of--

BECKY QUICK: But are there times to be Keynesian and then times to pull it back in and rein it back in?

WARREN BUFFETT: Yeah, well, that's-- but Keynes would say that too. Yeah.

JOE KERNEN: Well, we need a guy with a little--

BECKY QUICK: Let-- me ask you--

JOE KERNEN: --experience-- to talk about all this. Not someone-- you're age, you know. We need-- Charlie on who can probably really--

BECKY QUICK: Charlie.

WARREN BUFFETT: Yeah.

ANDREW ROSS SORKIN: --with a little experience under his belt.

WARREN BUFFETT: Give him a s-- yeah, g-- be prepared to bleep him out though.

BECKY QUICK: We need a three-second delay with Charlie. Hey, Warren, let me ask you, just City Services, you've talked about this. I knew that was your first purchase. I knew you were 11. But for people watching at home, you hear an 11 year old picks out a stock and asks their dad to buy it,

particularly when their father is a stock broker, you assume their father is the one that led them to that conclusion. My guess is you did that all by yourself. How-- did you come up with it?

WARREN BUFFETT: Well, I must've heard somebody talk about it. But-- and if you looked at City Service at that point, here was this company in the Depression, didn't have the money to pay it. Now all of a sudden was paying down its debts and it was going to earn a lot of money. And they had a lot of, you know, they had-- assets that were becoming worth more. And we were going to have inflation after World War II so that assets probably were going to be worth more while their debt was coming down. And the earnings on the preferred were terrific. They just weren't paying 'em out. So-- I was going to get \$200 at some time. But the problem was that I-- buying it at 38 and a quarter, as a matter of fact, and having it go down to 27-- and walking to school with my sister who also wanted to buy three shares cause I was buying it-- she hated to see me get rich, while she wasn't getting rich- and having her point out that this thing was going down every day, when it got back up to 40 and we had-- each had a chance to make a \$5 profit I thought, you know, now my sister will again consider me a genius and I will have \$5 more. How could life be any better? So then I watched it go to 200 after selling it at 40.

BECKY QUICK: Well, lessons learned early in life. Probably very powerful ones. Warren Buffett's going to be with us until 9:00 a.m. We have a lot to talk about still. But, guys, I'll send it back to you in the studio right now.

ANDREW ROSS SORKIN: Okay, thank you, Becky. Coming up, when we return, we have two special guests joining Becky and Warren Buffett. That's going to happen in the 8:00 hour, Berkshire vice chair Charlie Munger. We are getting the three-second delay ready for him. And then Berkshire board member Bill Gates. Stick around, we've got a lot more coming back from Omaha in just a moment right here on Squawk.

ANDREW ROSS SORKIN: Good morning. Welcome back to "Squawk Box" right here on CNBC. Let's show U.S. equity futures at this hour. Let's let you know what's going on right now. Dow looks like it could open up higher, about 60, almost 70 points higher now. NASDAQ looking to open about 38

points higher and the S&P 500 looking to open up about nine points higher. A quick look at crude right now. Barrel costs a WTI, \$70.42. That's the highest level since November of 2014.

JOE KERNEN: And it makes you wonder when – if the Iran deal is decertified, is it in the stock or is it in the price already? Because that's not going down if the president decides to exit that deal. Let's get back to Becky out in Omaha with our special guest, Mr. Buffett. Beck?

BECKY QUICK: Joe, thank you. Once again, we are in Omaha with Berkshire's chairman and CEO, Warren Buffett. He's going to be with us through the entire morning. We'll be joined also by Charlie Munger and Bill Gates a little later in the program. But right now, Warren, let's talk through some of the individual stocks that you've spoken about this weekend. Maybe the most controversial one was Wells Fargo. You were questioned directly on that at the shareholders' meeting with questions from shareholders. And who have said, "Okay," and I did hear this from other shareholders later on –

WARREN BUFFETT: Sure.

BECKY QUICK: Wells Fargo has run into trouble time and time again. The fines have continued. The developments and things that we've found out about some of the cockroaches particularly – you know, as you might phrase – continue to come out. But you've stuck with this stock and said that you're not selling and that you have faith in Tim Sloan who's the existing CEO. People have pushed back and said, "Look, this is a company that's run into trouble and it doesn't jive with what we've heard you say about Salomon." How do you say yes this does fit with our investing philosophy?

WARREN BUFFETT: Well, at Wells Fargo they made one mistake that maybe I've made from time to time, which is incentives work, and they came up with improper incentives and they work. And so they incented bad behavior instead of incenting good behavior. And that happens from time to time. You could put too big a commission in something of the sort.

BECKY QUICK: But let's talk very specifically about what incentives were created. They were incentives that rewarded people for the number of new accounts that were opened.

WARREN BUFFETT: Number of new accounts. And they got in – they regularly on their investor presentations would say, "We've got so many. And eight would be great. And 6.2 was better than 6.1 products." So it put this huge emphasis to the public out there as well as to their employees. But to the public that they had more services per customer.

BECKY QUICK: To their shareholders.

WARREN BUFFETT: And shareholders. And everybody would listen. And surprise, surprise, people started creating fake accounts. And when bad behavior gets in there, other people figure it out – I mean if you get rewarded for bad behavior, you're going to have a lot of bad behavior. That's a problem. I'm sure it's a problem we've had from time to time in Berkshire and other places. But the real problem was when you find out about it, you've got to stop it immediately. And I don't know the details about why it wasn't stopped, but I've seen that before. And then it just gets out of hand. And if you don't stop it immediately, then if you do it four months later everybody will come and say, "Well, why didn't you do something four months earlier?"

BECKY QUICK: But let's be a little more pointed with this. This was not just a case where Wells Fargo was not stopping bad incentives immediately. It was quashing whistle-blowers who were behaving properly and firing them.

WARREN BUFFETT: I don't know the details too much on that.

BECKY QUICK: From what's been reported. I don't know this first-hand.

WARREN BUFFETT: I won't argue with you.

BECKY QUICK: I don't know this first-hand, but from what's been reported, there have been many whistle-blowers who said that they were trying to do the right thing. They tried to report it. And as a result they wound up losing their jobs.

WARREN BUFFETT: Yeah, once you have not done it, you're in the soup. I mean, John Gutfreund in April of 1991 got word that Paul Mozer, a trader in government bonds, was doing something that was very wrong. And he absolutely – John was not profiting by it. He didn't know about it. But the next minute he had to pick up that phone and call Gerry Corrigan of the Federal Reserve of New York. And everybody thought he was going to do it in the room. But it was unpleasant or he got distracted. And then on May 15th Mozer did it all over again and now the position you're in is you caught him and you knew this pyromaniac was out there who would set fires and you let him light another match. And then you're in big trouble. Anyway, you have to act. I mean, Charlie's been very good with me on things like that. If I tell him about anything is a problem, I mean, he doesn't let me procrastinate. And I might procrastinate a little. It's a very human trait. But anyway, and then they uncover other wrong things as you get into it. Now a couple of our great opportunities came from similar situations. I mean GEICO had a CEO in the early '70s who refused to accept the fact that the lost reserves were developing badly. Now if you refuse to accurately assess your loss reserves, you also don't know your costs because you sell the product first and then you start kidding yourself on the cost. And then you get in a hole. And now your reserves are at a – maybe you figure it out. But then you've got to admit it if you do it. And it's just easier to shut your eyes and hope that something good happens. And it essentially bankrupted the company. Now that was a huge opportunity for us because GEICO was a solid company underneath. But their balance sheet was a mess. They needed to raise capital. They almost got their licenses withdrawn. And we bought half the company for less than 50 million bucks. So the fundamental business of Wells Fargo, they've still got the accounts, they've got the loan customers. We do business with them every day. And incidentally, other banks ran into much other kinds of trouble in the 2008 and '09 period. More on the selling bigger stuff, you know, maybe mortgage back securities or something of the sort. So the banks had their share of trouble. But Wells had theirs in a particularly egregious way, which was really kind of thumbing their nose at the public. They made way, way, way less money doing that than if they were bundling big MBS' and raking it in by the tens or hundreds of millions. And the fines were big, you know, even bigger. But going forward, you can stop bad practices. They should be stopped earlier and much earlier is easier.

BECKY QUICK: I look at the situation with Salomon and you came in and were the person who had to clean it up. Tim Sloan was an insider. Tim Sloan was not the one who – this didn't happen on his watch.

WARREN BUFFETT: No it didn't.

BECKY QUICK: But he was an insider. Is that – can you be an insider and still be the one who cleans it up?

WARREN BUFFETT: Well, I cleaned up affairs with Congress and tried to set a tone and everything. Deryck Maughan came in and I put him in total charge of running Salomon Brothers. And everything he did, you know, was perfect. I mean, and he had all kinds of things he had to look at, we didn't know when we'd get more surprises. He was working 15-hour days. He never asked for any extra compensation of any kind.

BECKY QUICK: And he was an insider at Salomon.

WARREN BUFFETT: Oh yeah, he'd been an insider there. Sure, he was one of seven or eight people that would – top people I interviewed. I had to have an insider because I arrived there on a Friday, you know, and they were about closing us up – and somebody had to run a business that was doing more maybe hundreds of billions of dollars' worth of business and things like government bonds and everything. We had the largest balance sheet of Wall Street. So there was no way I could wait and get an outsider. I interviewed people on a Saturday. I started interviewing at 9:00 in the morning. I got in on a Friday. And I had to come up with somebody by Saturday afternoon to run the place. And there were people in that room that semi-contributed to the culture anyway that led to this activity. And so I picked an insider who knew about it, knew all the people involved. And the guy behaved magnificently and got me out of trouble.

BECKY QUICK: Joe?

JOE KERNEN: Andrew wants to talk to you.

WARREN BUFFETT: The same thing happened to GEICO. They picked a new guy. They picked Jack Byrne.

JOE KERNEN: Warren, I wonder how much Wells Fargo talked to you. They're on a complete reset now. Yesterday was a Wells Fargo championship down at Quail Hollow. I don't know if you saw it. But the entire advertising campaign they go back and show when Wells Fargo was, you know, was founded and they show stage coaches and everything they did. And then they just go completely blank where they say, "But this happened. And now it's the new —" I mean, they paid someone to get an entire ad campaign that there's been a complete reset and we're starting over. And, you know, the spokesperson that they had on at the tournament it's all they talked about as well. I mean, that took a while. But they finally got to the point where they're saying, "All that history is in the past and we're starting all over right now," which is pretty amazing that they had to come to that point. Did they talk to you about that advertising campaign?

WARREN BUFFETT: Yeah.

JOE KERNEN: I guess they did.

WARREN BUFFETT: No. No.

JOE KERNEN: No, they didn't?

WARREN BUFFETT: No, we never – and at Salomon, we did not run an advertising campaign. But I ran a two-page, double truck ad in the New York Times and the Wall Street Journal and the Financial Times when we reported our third quarter. And I said what was wrong and I said how we were going to change it. And it was in very small type. And we needed change. Wells, it's interesting. I first bought in when Carl Reichardt was running it. I can tell you that there's no finer guy than Carl Reichardt. It wouldn't have happened under Carl Reichardt. But institutions make mistakes. And I will tell you this, we have 377,000 people working for Berkshire and right now I don't know whether five of them or ten of them or 20 of them – but I'll guarantee it isn't zero – are doing something wrong. And my job is to act when I hear about anything. And to make sure we've got some system so we do hear about things. So we get about 2,000 contacts through what we call the hotline a year. I get anonymous letters. And those are the two best sources of finding out where something's wrong. I mean, it's

better than having 100 people crawling all over the books. Anonymous, anonymous. Sometimes they sign them. But I just received one last week, you know.

BECKY QUICK: You received one last week about something happening at Berkshire?

WARREN BUFFETT: Yeah, sure. But, I mean, I receive them all the – and I mean, they're going to come in. And sometimes people just don't like the person working next to them so they, you know, they come in for a lot of frivolous reasons. But you have to look into what it is. And if you look at 100 and 99 are, you know, the guy next to me has bad breath, you know, or something like that. But that's the way you do find them, overwhelmingly, is tips basically.

BECKY QUICK: How do you track down every one of those tips?

WARREN BUFFETT: Well, we have an audit department that sorts out the ones that they think I ought to see. I mean, you know, so Becki Amick is in charge of the audit department. And incidentally, the larger companies, they have their own groups too. But those people could not only write their own company but they could write us. And some of them just come into, you know, a letter comes into Warren Buffett chairman – it's usually not signed. But that's okay, I mean, and obviously when they get very specific and say, "This is going on or that's going on," that's what happened at American Express in 1964. They had a field warehousing subsidiary. They were getting calls from a guy at a bar in Bayonne to the head of the – and he was saying, "The tanks are phony. Go to this tank and go to that tank and you will find that it's not filled with solid oil." And the guy didn't want to hear it. And he didn't want to tell his boss. And it just gets worse and worse and worse.

ANDREW ROSS SORKIN: Hey, Warren?

BECKY QUICK: Andrew?

ANDREW ROSS SORKIN: You know, after you had commented on Wells Fargo during the meeting when we discussed it on Saturday I got a couple

of emails of folks who asked me I could – if there could be a follow-up question. So the follow-up question is this. When you bought Salomon you came in after Salomon had its problems. And some of the other examples that you gave, the opportunity came because you weren't in the stock. In the case of Wells Fargo, you've been in the stock. So there were two questions. One is do you wish you weren't in the stock when they had the problems, meaning would you have preferred to put your money, for example, in something like JPMorgan, which I know you've put personal money in before. And somebody else said that, you know, you famously said if you lose reputation, "I will be ruthless." And the question is, when will you be ruthless or at what point would you be ruthless either in this case of Wells Fargo or does it have to be even more egregious?

WARREN BUFFETT: Well, I'd be ruthless if anybody was working for me. But I don't – and the answer is, of course I wish I wish I'd bought the other stocks – bank stocks – and then sold them now so I'd be buying Wells Fargo now. I mean, Wells Fargo actually is buying in a lot of shares. And you can argue that they are improving the per share value because they had this bad news they're buying it cheaper. But I think ten years from now, I think if you look at the ten-year record of Wells Fargo ten years from now you will – you're very likely to find that it outperforms most of its competitors.

BECKY QUICK: Would you be buying more shares now if you could? You can't because of the bank thresholds, bank owned 10%.

WARREN BUFFETT: Yeah, if – I don't want to give recommendations on which stocks to buy.

BECKY QUICK: Yeah. To Andrew's other point though, I think you touched on it very quickly. But the idea of being ruthless, if you lose a shred of reputation for the company –

WARREN BUFFETT: That's Berkshire.

BECKY QUICK: Right, but what you're saying, you're distinguishing between Berkshire-owned companies and investments.

WARREN BUFFETT: Sure. Sure.

BECKY QUICK: It may be worth pointing out that you're a passive investor in Wells Fargo and the bank and you have to be.

WARREN BUFFETT: Yeah, well, I have to be a passive investor.

BECKY QUICK: But I'm not sure everyone understands that.

WARREN BUFFETT: Yeah. No, no, no. We are not – we do not want to be a bank-holding company. Now, we can become a bank-holding company if we own over 10% and there's a point at which your activities could make you or some of these – we have no – we owned a bank. And we had to dispose of it back in 1980. We bought a bank and then they passed the banking act of 1969. We'd have bought more banks actually. I like the banking business. And then they changed the law in 1969 and we had ten years to divest. Maybe they changed it in 1970. We had ten years to divest of the bank we owned. But I would not – we'd still own that bank and we'd own other banks if they hadn't changed the law in the 1970 period.

BECKY QUICK: Okay.

WARREN BUFFETT: But I don't feel responsible. If you're having trouble with your Apple phone don't blame me.

BECKY QUICK: Okay. We have much more from Warren Buffett still to come. Right now we're going to send it back to Joe and Andrew in the studio.

ANDREW ROSS SORKIN: Okay. Coming up when we return, billionaire summit. Warren Buffett's going to be joined by Berkshire vice chair Charlie Munger and Berkshire board member Bill Gates. That starts at 8:00 a.m. eastern time. "Squawk Box" returns from Omaha in just a moment.

BECKY QUICK: All right, good morning again, everybody. Welcome back to "Squawk Box" where we are live from Omaha. Today we are introducing the Warren Buffett archive. This is a website with the world's largest collection of Buffett speaking about business, investing, money and life. It includes 25 full annual meetings for Berkshire Hathaway with Warren

Buffett and Charlie Munger taking questions from the audience. It goes all the way back to 1994 with a highlight reel for each year. By the way, folks, this is the only place that you can get this complete archive. It's also got 130 hours of searchable video. It's synchronized to 2,600 pages of transcripts that have been painstakingly checked by Alex Crippen who did a phenomenal job of running through and making sure he knew exactly what everything that was mentioned was done. This was done by hand. I'm calling it, instead of AI, AC for Alex Crippen. There are 500 video clips covering scores of subjects plus CNBC interviews, a Buffett timeline and a Berkshire portfolio tracker. If you want to check it out make sure you do it today, it's Buffett.CNBC.com. Warren, you got a chance to take a look at this too. And this came from you giving Steve Burke, our chairman at NBCUniversal, access to 25 years of annual meetings. This is stuff that only Berkshire's been holding onto for this time.

WARREN BUFFETT: Yeah, Steve had suggested it to me a few times. And then he suggested it a little stronger. And it sounded like a good idea. I didn't think it could be done like this. So we just gave him all the annual meeting material. We didn't give the movie because that's got some stuff that we've promised not to put out, you know, but —

BECKY QUICK: You mean with celebrities who have done things.

WARREN BUFFETT: The celebrities come on, yeah. But in terms of the annual meetings, you know, door to - portal-to-portal and everything we had. Everything we had. And even, you know, with university students - anything we had, we gave Steve. And I told Steve, "You can do with it exactly what you want." I mean, I've known Steve a long time. And I thought it'd be an impossible job. But I knew that if it was done, it would be done well. I mean, it blew my mind when I saw it.

BECKY QUICK: I mean, it's been really useful for me just going back trying to figure things out because over the year's things kind of blend together when you said what or exactly what you said or if it was you who said it or Charlie who said it. The search function is better than I had anticipated just in terms of being able to look up things. Like maybe I wanted to find out when you started buying shares of Apple. Type in Apple shares and it comes

up. And I can even go back, link to the transcript and then click to the video of you saying exactly why you were buying it.

WARREN BUFFETT: Yeah, it'd be more fun for me to just recall what I was saying. The bottom of all. But it's all there. I mean and that's the way it should be. I just love the idea of it.

BECKY QUICK: Great, thank you. And folks at home, if you are wanting to check this out the address, again, is Buffett.CNBC.com. The website is live. We'd love to hear what you think about it too. When we come back this morning, we have much more from Warren Buffett plus we'll be joined for an hour by Berkshire's vice chair Charlie Munger and Microsoft co-founder and Berkshire board member Bill Gates. That is coming up at 8:00 a.m. eastern time. We will be right back live from Omaha, Nebraska.

BECKY QUICK: Andrew, thank you very much. Again, folks, we are live in Omaha, Nebraska. This was the site of the Berkshire Hathaway annual meeting this weekend, the 53rd annual meeting. Our special guest is Berkshire's chairman and CEO, Warren Buffett. And, Warren, thank you again for being with us this morning.

WARREN BUFFETT: It's fun.

BECKY QUICK: It is fun. I want to talk through the cash hoard that Berkshire has. At the end of the year, you had \$116 billion in cash. You told us last week-- that you had spent about \$12 to \$13 billion in the first quarter. So you were thinking the cash hoard was closer to \$100 billion based on some other things that you had potentially bought as well. Okay. So you're spending billions of dollars, but you still have \$100 billion. Is that ideal?

WARREN BUFFETT: No. No. It---- it's-- we earn very little on it. But that is-- we will earn a little more this year on it than-- but it's just about the world's w-- worst investment except doing something dumb that y-- you're doing for a longer term. And-- but it does give you the ability to move very quickly if something very big comes along. But I would much rather have that number be \$30 billion than \$100 billion and have that-- the other \$70 billion invested in-- ideally in businesses we own but also-- in securities we own.

And we did, for example, put out-- I don't know whether it was-- how much was in the first quarter, how much was in April I'm not sure. But-- we put out 15 or so billion net-- into stocks. And I like that. And-- it wouldn't-- if I could find 'em and buy 'em in sufficient quantity, if that had been 50 billion, I would have been even happier in the first quarter. Or if we'd bought a \$50 billion business. But-- you don't want to let money burn a hole in your pocket either. I mean, we-- make-- if we buy a business, we buy it to keep. So-- if we pay X for a business or 2X for a business, the business doesn't know, it's doesn't adapt itself to what I'm paying. And it's going to earn the same, and so it - if I make a mistake on purchase price, Berkshire Hathaway lives with that mistake. Forever.

BECKY QUICK: And so, for the rest of us who see you sitting on \$100 billion, we think that you think the market looks expensive and that you can't find anything that's worth putting your money into that's better than cash or short-term treasuries.

WARREN BUFFETT: We - we own \$170 billion worth of equities. We go up every quarter, and we went up a fair amount in the first quarter. So - no, I would rather own the \$170 billion of stocks we have than own treasury bills by a very significant margin. But there are limits to how much I can buy of - - of some of these companies that I like. Usually we quit at 10% almost always. So, no, if you told me I had a choice and I could make a change - if you told me I could make the choice of owning treasury bills, long-term treasuries or common equities, I'd buy common equities, and I-- was going to keep it for 10 years or 20 years, I'd do it in a second. And-- we'll get the money in play. We-- we've-- something will happen.

BECKY QUICK: Something will happen meaning a big deal?

WARREN BUFFETT: It could. Yeah. Sure. I could spend it all tomorrow. I mean, I wouldn't spend the whole 100. But I'd-- I although if a 100 million-- a \$100 billion deal came along that-- Charlie and I really liked, we'd get it done.

BECKY QUICK: You'd get it done by spending it all or by a financing partner?

WARREN BUFFETT: Well, we'd probably have to-- we might borrow 30. 25 or 30. Or we might sell some things. I mean-- but one way or another, we'd get it done if we liked the deal.

BECKY QUICK: There are-- questions that came in from shareholders that I got this weekend. And I didn't get a chance to ask you all the questions that came in. Some of them said, "Is 20 billion still the amount that you feel comfortable holding?" Others asked, "If you've got all this and you're telling all of us to put our money in an S&P index, why don't you put that \$100 billion in an S&P index?"

WARREN BUFFETT: It wouldn't be the dumbest thing in the world if we did. But-- that's a lot to move in and out. No index fund would take it, I mean, to start with-- knowing that we would want to-- might want to yank it out-- 50 billion of it out in a week. So we we'd almost have to create our own-- index fund to do it.

BECKY QUICK: It wouldn't be hard.

WARREN BUFFETT: Well, it---- it'd be a fair amount. I mean, they're better set up to do it than we are to buy 500 stocks in the proper proportions and keep an index. But we could create something that was a quasi-index fund. And-- that-- that-- that would have been smarter than what we've done, Becky. That-- that would have been smarter. You know, I mean, I've thought about that some. I think-- I think it's a little harder to act when you see something later on if you do have to unwind 500 positions and all. I like to move when I move. So I-- but net, if you told me over the next 30 years that Berkshire would keep it's excess-- that we'd still have 20 billion in-- at least in treasuries-- but-- or treasury bills. But if you told me we were going to follow-- for the excess money we were going to follow an index fund policy versus a Treasury bill policy, I would say the index fund policy would work well assuming we could execute it reasonably well.

BECKY QUICK: Okay. Let-- let's talk-- about Apple, the place where you were spending the bulk of that cash that you were in the first quarter where you were deploying it. \$12 to \$13 billion that you put in. That's on top of the, I think \$27 or \$28 billion you already-- maybe it was 29 billion you already

owned in Apple as of the end of the year. That's a big chunk of that \$170 billion. It's the biggest stock that you own by far. It already was before you bought these additional shares. 75 million shares. Why?

WARREN BUFFETT: Well-- I should say in the past we had plenty of times when a single stock was a bigger proportion of our total net worth. But in terms of recent times-- well-- it was-- it was-- it was a company I liked, a business I liked very much. And we could buy a lot of it. There are some others that-- that are much smaller companies we just can't buy that much. I might like them equally as well, but I can't put as much money in it. But I clearly like Apple. And-- we buy up 'em to hold. And-- we bought about 5% of the company. And-- I'd love to own 100% of it. But that's the test. Would you like to own 100% of a company? If-- you're going to buy 5%-- we're not buying a stock when we buy Apple in our minds. We're buying 5% of a business. We buy 100% of some businesses. And when they're publicly held, we buy 5%. But we bring the same thinking to it. And we like-- we like very much the economics of their activities. And we like very much the management, and the way they think, and the way they act.

BECKY QUICK: Andrew?

ANDREW ROSS SORKIN: One of the-- other questions, Warren, which we didn't get a chance to ask-- over the weekend-- was one-- about USG. This is a transaction you-- you've been involved. You've historically avoided-- what are described as hostile takeovers and said you didn't want to be involved in them. This one's a little tricky-- because the US-- in the-- this case of USG, you have effectively backed a company-- that is trying to effectively take over USG. Can you-- can you talk about that a little bit?

WARREN BUFFETT: Yeah. We bought USG first 18 years ago. We made a substantial investment. In 2006, the company-- had been-- went into bankruptcy twice. And the company faced these huge asbestos claims. And we backstopped singlehandedly, Berkshire did, a one-for-one stock offering, which is very unusual. And we backed with a billion six or a billion seven-- this company c-- coming out of bankruptcy having a one-for-one offering. And then two years later, in 2008-- when the crisis hit and also hit housing, the company found itself needing money again. And-- we put up 300 of the

\$400 million they needed at that time. And 18 years from the time we bought the first stock and 12 years from the time we in effect bankrolled the company in terms of coming out of bankruptcy, we've never received a dividend. And the stock that we backstopped in 2006 at \$40 was selling-- has been selling for less than that. And in general, the earnings estimates, the new products, and that sort of thing-- you know, have fallen short. Now, that happens with companies we own, too. I mean-- business can be tough. But when they received an offer from another company that also had been an 18-year-old shareholder and perf-- perfectly responsible-- building materials company-- that actually competes with our company Johns Manville, this company, they made an offer. And-- the company did not-- we own 30% of USG. (The c-- the company did not call and say, "What do you think of this offer?" Anything of the sort. They just called afterwards and said that their board had unanimously decided that it wasn't in our interest to-- negotiate with them or anything. And like I say, we own 30% of the company. And then the company made a second offer. And-- the German company Knauf.

And, again, they were turned down with no negotiation or anything of the sort. So we really felt the directors were p-- probably f-- very fine people. I don't know them. But we felt that they did not represent our interest and that-- and we said that-- we intended to vote against them at the annual meeting. We don't have a candidate of our own or anything like that. But we just think that directors are there to represent shareholders. And-- we do not feel that they were certainly representing us with a 30% interest. And I-- and it's been since then that two proxy advising organizations, ISS and Glass-Steagall -- Glass Lewis, have said that-- they think-- they recommend a vote against these directors as well. And now the company said it's going to negotiate with the-- with-- Knauf. So that's-- that-- that is the situation. We-- that-- that's the first time I think in the 53 years I've been at Berkshire that we've voted against a slate. We withheld our vote at Coca-Cola a few years ago about-- because of a compensation plan. And we voted a time or two against individual issues. Maybe on stock options or something of the sort. But it's just-- it's a question of whether-- the stockholders should determine what they think the value of the company is. All I know is that-- that for 18 years it has not worked out that well. And management has been more

optimistic than subsequent events-- delivered. And we thought they should sit down and negotiate. Warren, another question that came up from a lot of shareholders. We covered it some in the question and answers period on Saturday, but I thought maybe you could go into a little more detail-- detail on it. Just the idea of consumer packaged goods. Companies like Coca-Cola-- which hit a 52-week low last month even though the company came in with better than expected earnings on issues-- and a company like Kraft Heinz, which is down about 35% over the last 12 months versus the S&P being up 11%, it has a lot of people thinking that consumer packaged goods-- don't have as a bright of a future. I-- think-- Jorge Paulo may have even called them-- saying jokingly that he felt like a dinosaur at the Milken Conference recently. What do you think when you--

WARREN BUFFETT: Well--

BECKY QUICK: --look at these areas?

WARREN BUFFETT: --it's-- they're still very good businesses. I mean, you've got a brand. If you look at the return on tangible assets, you know-- at Coca-Cola, or at Kraft Heinz-- you've got a very good business. It doesn't look as good as it did five or 10 years ago. In other words, There-- there's two reasons I think for that. One is, people are-- seem to me to be a little more willing to experiment with different diets or foods than they were--

BECKY QUICK: Give me. You mean--

WARREN BUFFETT: --five or 10 years ago.

BECKY QUICK: -- Some people would say healthy diets where they won't eat things that are packaged. They think that's bad for them. It's a millennial attitude, too, where they won't buy from the old brands.

WARREN BUFFETT: They're certainly -- that's a factor in all of it, I think it may even extend beyond millennials to some degree. People are more-- well, they've gotten used to more change in their life generally. And so I would say that the-- that there's still a huge loyalty factor. And there's-- but it is not as strong as it was five, or 10, or 20 years ago. And secondly-- there's always

been a struggle between the retailer and the brands. I mean, they-- now, they-- you can't-- I mean, that's built into the American market system. And I would say that the retailers-- and they've-- always had private label brands. In some other countries, private labels are much stronger than the United States, for example. And the private label brands are priced below the big brands. And-- the retailer-- every time a retailer meets up with-- a packaged goods-- salesperson, they are arguing for lower prices and better deals. And I would say that their hand-- becomes stronger as the Costcos, and the-- and the Walmarts, and in other countries this other kind of-- as they become stronger-- the struggle can tilt a little bit one way or the other. I think-- I think a few years ago-- I-- think Costco dropped Coca-Cola. And that's a real test if you want. And of course Sam's Club at that time started pouring it on with more Coke and everything. And that-- Coca-Cola's a pretty strong brand. So that Costco could decide to do that. But if Costco decided to drop a bunch of other brands-- that you could name-- they-- or Walmart decided to drop 'em, I mean-- the packaged good company might feel it more than the retailer would feel it. And they would come to terms faster. It's an-- it's an interesting dynamic. And it has gone somewhat against the packaged good companies. They're still good b-- very, very good businesses.

BECKY QUICK: Is that-- the dynamic between the retailer and the packaged goods companies, is that a pendulum swing that swings back? Or is this--

WARREN BUFFETT: I hope so.

BECKY QUICK: Or is this a new--

WARREN BUFFETT: No, not necessarily. No, I mean you've got these German discounters coming over here now. And-- each company's got some muscle. And if you've been selling whether it's Coca-Cola, or, you know, whatever food you m-- may have eaten as a kid, or something like that, I mean, you were pounding-- you want the c-- consumer cause you got to win with the consumer in the end. You've got to have a product that's strong enough that the realer-- retailer has to c-- carry it to some degree and where their private label, even though it's priced below it, does not draw volume away. And if you take Heinz Ketchup, it's very, very, very hard to take share

away from Heinz Ketchup. It's hard to take share away from Philadelphia cream cheese, but I could name some other products which are-- w-- where it's easier to take-- share away. And-- the consumer is going-- the consumer votes every day. And some things are affecting the consumer like the feeling that the-- other things are healthier or something of the sort. Price affects the consumer. But just the prevalence and strength of the retailer can affect the consumer, too.

BECKY QUICK: Is that why there's so much pressure for some of these packaged goods companies to get bigger, for-- new deals to come in? Like-- I'm going to take and wrap up with a lot of products, and then I have more heft against the retailers if they try and turn me around with their friends?

WARREN BUFFETT: You don't-- you don't get-- if Coca-Cola were to buy-- they've got the world's greatest distribution system. So they can-- they can push liquids through that. I don't know whether they could push cream of wheat, you know, or some things through their distribution system. Obviously, a great distribution system is worth an enormous amount. And-- like I say, Coca-Cola has a great one. Coca-Cola incidentally, you know-- they're selling 5% more liquids. They are selling 100 ounces of liquids per capita in the whole world. 7 billion people are drinking their Coca-Cola product. And they're drinking that at the rate of 100 ounces a year. That's substantial. Leaves a lot of ounces to go. But they are selling more ounces of liquid-- they've got more-- but they've got more brands now. But they are selling than they've ever sold. And it-- grows year by year. And it's growing. And James Quincey is doing a sensational job on that. And first quarter even showed it. But-- the-- if you've got a brand that's kind of lost out there or something of the sort, it's hard to get shelf space. And-- the retailer is going to stock what will move. And sometimes that involves price. And what you-- what you want to have is a product the retailer has to have.

BECKY QUICK: There are a lot of subjects that-- that drew some controversy and got a lot of headlines from this weekend-- including some back and forth-- between you, and Charlie, and then Elon Musk. And we're going to talk about that in just a moment, but I-- I think we need to take a break. So

Joe and Andrew, we will send it back to you in the studio. And we'll have more on that coming up in just a moment.

JOE KERNEN: Thanks-- Becky. You got a Wall Street Journal out there, too, Beck? You got one? They -

BECKY QUICK: Right here. What do you want me to look at?

JOE KERNEN: I want Warren to-- he may have already seen this Neil Ferguson-- piece cause-- it echoes some of the stuff that-- Warren was saying about this-- this China skirmish that--

BECKY QUICK: Here it is.

JOE KERNEN: --that we're having. Very interesting.

BECKY QUICK: All right. I'm giving it to him right now, Joe, so he can take a look at it.

BECKY QUICK: It's in the op-ed page. He'll read up on it--

JOE KERNEN: Excellent.

BECKY QUICK: --and be prepared.

JOE KERNEN: Excellent. Cause-- like---- Mr. Buffett, I-- think they think that it's something that because of the changing relationship we have-- and things have changed-- since -- "Chi-merica" actually came about. And, you know, China's done well. And they need to come into the-- real world. And maybe we're not wrong to be doing' it this way. That's the thrust of the piece. Anyway-- I would like--

BECKY QUICK: That's a good tease, too. We can talk more about that.

JOE KERNEN: Yeah, I'd like Warren's comments or-- at least thoughts on that. We'll more from Becky and Warren Buffett-- on the other side of the break. In the meantime, let's get you caught up-- on the markets. We had Katie Stockton on last Thursday. And she was saying still thought the trend would reassert itself positively. And suddenly on Thursday we are down

400 points. Well below 24,000. But it closed up five that day. And then another positive session. And suddenly, we're about 700 points above-- the worst levels after she was on-- as it did reassert itself. There's the futures up 100 this morning-- just about on the Dow Jones. The NASDAQ up about 45. And we're watching oil this morning. Saudis reportedly want \$80. And they'd like 80. And they seem to be getting their way-- this time around. The 10-year note, still below 3% though. 2.96 When I looked-- this morning. We'll have-- 2.959 now. And we'll have more Squawk Box-- coming up in a minute with investing legend Warren Buffett when we return.

BECKY QUICK: Good morning, everybody. And welcome back to Omaha, Nebraska, where we are live with-- Berkshire Hathaway's chairman and CEO, Warren Buffett, coming off of the 53rd annual shareholders meeting for Berkshire Hathaway. Warren, again, thank you for your time this morning.

WARREN BUFFETT: Glad to be here.

BECKY QUICK: There are so many things that we wanted to talk to you about this morning. One I've kind of been holding off, waiting to get your comments on is Elon Musk. Elon Musk was brought into the conversation this weekend at the shareholders meeting by a question. And I forget who asked it. One of the shareholders maybe. Bringing up this idea-- or maybe-- it was Andrew. But somebody brought up this idea of-- moats. Competitive advantages and moats. Elon Musk recently said that he thinks moats are stupid. People--

WARREN BUFFETT: He could give me his.

BECKY QUICK: And-- that became a subject where Charlie weighed in and said, yes, he's-- right that actual moats around castles are stupid. But you guys got into a little bit where you were joking around, saying that-- you'd like to see him try and get into a candy store. He responded this weekend with some tweets, saying, "I'm starting a candy company, and it's going to be amazing. I am super, super serious. It just occurred to me that the plot of Willy Wonka is really messed up. Okay, okay. Just for the sake of argument, what do you wish for in candy? Crypto candy. Then I'm going to build a

moat and fill it with candy. Warren B. will not be able to resist investing. Berkshire Hathaway kryptonite. I'm killing' me. L-O-L." (THROAT CLEARING)

WARREN BUFFETT: Well--

BECKY QUICK: What do you think about all of this?

WARREN BUFFETT: Well, if you look at the leading candy bars, for example, for the last 50 years, I think you'll find Snickers on top. And then you've got M&M's. You've got two types. So they don't combine the peanuts with the-- other ones. But I think they're number two and four. And, you know-- Hershey's in there at number three or something of the sort. Yeah. I can't take 'em on. I don't the-- I don't think Elon should take 'em on. You know? They have moats. When you go into-- a drug store, a 7-Eleven, or something and you say, "I would like a Snickers bar," and the owner says, "Oh, I've got something-- the Musk Bar at---- 10 cents off the Snickers bar," you say, "Give me the Snickers." And if he doesn't give you the Snickers, you go across the street and buy the Snickers. Brands-- are moats, I mean, obviously. And---- if you try to-- you know, this-- this-- this product is selling, you know-- to hundreds of millions of people who want Coca-Cola. And if you say, "I'll sell you something for two cents less," or, "I've got some celebrity's name on it, they actually-- Richard Branson tried Virgin Cola in the United States about 15 or 20 years ago. And a million others have been tried. So-- I don't really have the same urge to produce automobiles that he apparently has to produce candy. But I don't-- I don't suggest that he take on Snickers.

BECKY QUICK: You're taking me literally and stepping away from the real story here, which is kind of this war of words between you, and Charlie, And Elon. And I-- just want-- do you even know Elon Musk?

WARREN BUFFETT: I've-- never-- I've never said anything negative about Elon. I mean, you're-- baiting me a little bit to do it, but--

BECKY QUICK: I am.

WARREN BUFFETT: But-- I've-- never-- you know, I---- people like his car and everything. But-- somebody mentioned that now he's talking about financing. Something this morning about that. I---- thought I heard that earlier.

BECKY QUICK: Yes. Well, actually, War-- Andrew just read some headlines where it looked like they may be-- Tesla may be going back to market-- to-- pick up some additional financing. I'm not entirely sure.

WARREN BUFFETT: That's--

BECKY QUICK: All I heard was the-- all I heard was the headline.

WARREN BUFFETT: That's what I call a counter-revelation. I'm talking-- (LAUGH) you know, because I think it was just a few days ago they said they wouldn't need financing. It---- but, you know, he's-- trying something to improve a product. And I-- salute him for that. And the American public will decide whether it's a success. And---- it's not easy. You know? So-- it's probably easier to develop a new car than it is to compete with Snickers. But some products have terrific moats. Probably Elmer's Glue does. You know, WD-40. I mean, there you go. You can-- there's just certain things that you are not in-- much inclined to be dissatisfied with and seek-- and I would say that-- incidentally that the iPhone-- you know, has a terrific moat. I mean, people that have an iPhone-- or maybe have some other phone. But they-- want to continue with the product that they've got. They-- want-- they want the new version. It's just easier for 'em now that they've have learned how to do everything, and their life's built around it, and all of that. And moats are very useful. Costco has a moat in people's mind. I mean-- Amazon can raise the price of Prime, you know, 20%. And you can't do that unless you've built something within that image of the Amazon Prime that's based on reality that you're going to get a lot for your money and you're going to want to use it. And then you can raise prices \$20. But if you're selling-- you know, if you're selling some commodity prod-- product, you can't do that. You need a moat.

BECKY QUICK: You mentioned Amazon. So let's talk about that. Because you did say over the weekend that Amazon is one of the shares that you

haven't bought that you wished you had. Are you ever going to buy shares of Amazon?

WARREN BUFFETT: It---- it'll probably be tough. I've probably got so many psychological problems with the fact that I didn't do it that it's very hard to do it. I-- always-- when I first met Jeff, I-- knew he was an incredible-- person. And-- he still encloses his 1997 annual report, which I read at the time, with his current annual report. And he's an extraordinarily clear thinker as well as being a brilliant thinker. And---- then he-- connects-- I mean, it-- it's far surpassed anything I would have dreamt could have been done. I mean, because if I had dream it-- if I had really felt it could have been done, I should have bought it then. It-- I knew he would do the most with whatever idea he had. I had no idea-- that it had this potential. I blew it.

BECKY QUICK: Another stock that you mentioned over the weekend, saying you-- should have known it early on-- w-- was Google, Alphabet, the parent companies of Google, because you knew how much they could charge you when it came to GEICO--

BECKY QUICK: Another stock that you mentioned over the weekend, saying you should have known it early on was Google, Alphabet, the parent company of Google.

WARREN BUFFETT: Yeah.

BECKY QUICK: Because you knew how much they could charge you when it came to GEICO.

WARREN BUFFETT: Yeah, here we were at GEICO, paying them 10 bucks or something for every click. I mean, you - 10 bucks. 10 bucks. And no cost to goods sold. I mean, and it produced results for us. That's why we paid them the money. So I had seen the product work. And I knew the kind of margins. I mean, I always said it's great to find something that costs a penny, and sells for a dollar, and is habit forming. This doesn't cost anything. And it's very useful. I mean, if you're looking up auto insurance on GEICO, you know, you've got an interest in auto insurance. I mean, it's a very directed way of talking to people. So the real question in my mind, I'd seen all of this

to before I used to play bridge on all of this. And what I didn't know was whether there'd be more entrants. I didn't know enough about technology to know whether this really was the one that would stop the competitive race and all that. But I should have gotten Google, too.

BECKY QUICK: You say that Silicon Valley and a lot of the things that happen there is not really your field of expertise. But you've been around, and you've seen how a lot of things happen. Particularly with how Washington can have an impact. The reason shares of Apple were down earlier this year was in part because of the iPhone, but probably also in part because the FANG stocks overall were under pressure because of Facebook, the trouble it got into, the potential for regulators coming into this arena. What do you think broadly about some of these regulatory issues, some of these privacy issues or do you even consider it?

WARREN BUFFETT: Well, no, I think about that. But basically I like good news that isn't – or bad news that isn't going to last. And I'm saying that is one of them. But, I mean, bad headlines don't bother me. I mean, I had bad headlines when I bought that stock right after two or three months after Pearl Harbor and knew it was going to have bad headlines for a long time. So, I am not worried about – we've made the most money when there's been some temporary bad news. I mean, over time. Now, you got to be sure it isn't permanent or something of the sort. But if people get excessively worried about, you know, people changing their tastes and what they drink, they're going to drink 64 ounces of something or other. And carbonated soft drinks have lost share. They gained share just steadily for I don't know how many years, practically forever. But then – but bad news does not scare me.

BECKY QUICK: Just to put a finer point on that though, the regulatory issues concerning the FANG stocks, you think that's just a temporary headline where maybe there's much ado about nothing here? Or are you not sure?

WARREN BUFFETT: The regulatory issues on which?

BECKY QUICK: On Facebook.

WARREN BUFFETT: Oh no. I think that's – no, that's important. That's important. I mean, if you – 60 Minutes had two different ones. They had one back on October 8th. And then they had one a couple weeks ago that illustrated the effect of – well, the fellow said Facebook won the election for Trump. The fellow who managed their operation in the last election out of San Antonio, and has been appointed the head of their committee for 2020. And he – it's a very interesting episode. I mean, they really knew how to target everybody in the country basically with things that would appeal directly to them. And that could not only affect them in encouraging the followers to come bring out the vote, but it could suppress votes. And, I mean, they had – Facebook embedded – the fellow used the term embedded there. I mean, so it's a very, very important issue. And I think probably Congress has just begun to scratch the surface of it.

BECKY QUICK: What's different with what the Trump campaign did than what the Obama campaign did four years earlier where they were using Facebook and were kind of seen as, like, these technology wizards for figuring it out?

WARREN BUFFETT: Yeah. Well, they took a first step. And then – I don't blame anybody for doing it. And but my guess is they thought they were doing it as well in the Democratic campaign in 2016 as the Republicans were. But the Republicans were technologically –

BECKY QUICK: Advanced. Yeah.

WARREN BUFFETT: Yeah. Yeah. And Obama was advanced for 2012. I mean, the trick is to convince people. But the trick also is to get your vote out. And then the trick which is not – which is really tricky and is very counter-democratic is to suppress the other guy's vote.

BECKY QUICK: And you think that's the type of thing that will get regulators' attention or it will make Congress pay more attention?

WARREN BUFFETT: Oh, a lot of things in privacy will get it. You know, I am – people impersonate me, you know.

BECKY QUICK: Yeah, Joe does it very well.

WARREN BUFFETT: Well, but he's doing it to a very sophisticated audience in your case. But if somebody impersonates me on some website and says something I say, I may even be all over the world. It isn't me. No, this has brought a lot of new issues that are important issues out. And we're just in the early stages.

BECKY QUICK: Okay. We're going to talk more about this and many other things. We'll send it right now though back to Joe and Andrew in the studio.

ANDREW ROSS SORKIN: Okay.

BECKY QUICK: Andrew?

ANDREW ROSS SORKIN: Becky, we will be coming back to you in just a little bit. We have that question from Alex Ohanian, by the way, Becky, which we're going to have to ask at some point.

BECKY QUICK: Oh, good.

ANDREW ROSS SORKIN: In just a little bit. But we will get back to them in Omaha get their thoughts on China and whether or not a trade war is on the horizon. And don't forget today we're introducing the Warren Buffett Archive, the world's largest collection of Buffett speaking about business, investing, money, and life. It includes 25 full annual meetings going back all the way back to 1994. We have a highlight reel for each. Plus, CNBC interviews, a Buffett timeline, and a Berkshire portfolio tracker. Be sure to check it out. Buffett.CNBC.com. It is very cool. "Squawk Box" returns in just a moment.

BECKY QUICK: Good morning again, everybody. We are live from Omaha, Nebraska, the site of the Berkshire Hathaway annual meeting. Our special guest this morning is Berkshire Hathaway's chairman and CEO, Warren Buffett. And Warren, so many things that we've talked about this morning and over the weekend. One issue is just the economy. And I know you told us last week a little bit about it, that it does feel like things have improved a little bit. Things have picked up steam. I just wonder why you think that.

What numbers you see. What are the things that kind of run through your head in determining the Berkshire economic index.

WARREN BUFFETT: Yeah. I see a lot of numbers. And I get them pretty fast. I mean, and business is generally pretty strong. I mean, you could look at railroad car – anybody can look at railroad car loadings, for example every week. They come out on Wednesday. And you can see them by category. 22 different categories. And I think Matt Rose may have mentioned the other day that 18 of the 22 are up and overall they're up. And they're carrying stuff because people are buying stuff. They're adding inventory. And you see it and you're seeing some inflation connect with some of this. But you see it in some building materials. We've seen it particularly in electronic components. We have an operation – most people probably don't even know anything about called TTI. And it carries close to a million different types of electronics. I mean, you can order any one of a million items from us. They're very small. But people buy them because they're using them. And, you know, we have a hard time filling orders in that business. And that's kept getting stronger now for a year right up to what we're talking here. So we're seeing pretty good business most places.

BECKY QUICK: The jobs number on Friday had some people speculating that we can't get much lower in terms of an unemployment rate. That it's hard to find bodies to fill the jobs that are opening. Do you experience that?

WARREN BUFFETT: Well, that's absolutely true. I mean, we have a lot of jobs. We have – if you want to be a carpet installer, you can make very good money because there's a shortage of people that know how to install carpet. And we can teach you to do it. It takes a little while. But that's a very good job. And our home builders – and you've read about this elsewhere – but we have, in addition to having a manufactured housing operation, we have a site build operation as they call them. And we're in Denver, and Austin, Texas. Various places. And we have a hard time getting people for certain of the construction trades. And, again, we're actually funding a school in Denver – we probably have other participants doing it – just to teach people jobs that can pay them 50 or \$60,000 a year. And no, there's – employment is tight in some areas. There's no question about it.

BECKY QUICK: What do you do? Do you end up having to pay more than 50 or \$60,000 a year? I'm just trying to find out how inflation gets started.

WARREN BUFFETT: Well, the market system in the end, if a resource is scarce – whether it's human or otherwise – if a resource is scarce, the price will go up. And probably – we are seeing prices moving now in some areas and less resistance to those prices in recent months.

BECKY QUICK: Which –

WARREN BUFFETT: This is not an explosion of World War II scarcity or anything like that.

BECKY QUICK: No. No, but I –

WARREN BUFFETT: But it's definitely going in that direction, Becky.

BECKY QUICK: And then you wonder where that gets us in terms of inflation that the Fed would start to see and potentially act against. And there are so many people who are trying to figure that out.

WARREN BUFFETT: Yeah. And I don't – I see all these figures, and I don't change one thing I ever do in terms of buying something. I've never changed an activity based on a headline in my life that I can remember, or an editorial opinion, or even the facts we get. I'm aware of them. And I like to know them. But it's going to be a different news year – we're going to own the company a year from now or five years from now. But I can tell you, I mean, if you're a policy center adviser or a member of the Fed board, I would be – I've got a responsibility then in terms of these figures. And I'm trying to steer them to some degree.

BECKY QUICK: But it may not have affected or impacted a decision on whether or not you were going to buy a business. But it does impact your valuation, expectations in terms of looking at stocks versus bonds or stocks versus something else. You've told us on this program that inflation acts as a weight on stock valuations. And when interest rates are so low –

WARREN BUFFETT: It should push up interest rates over time.

BECKY QUICK: Right.

WARREN BUFFETT: And it's very easy to talk about having a 2% goal. But it's another thing to keep it from going - once it starts in either direction, we don't know how well that'll work.

BECKY QUICK: Let's talk about something that Joe alluded to earlier. And that's China and Trade. Not just with China. With Mexico--

WARREN BUFFETT: Yeah, the world.

BECKY QUICK: --with NAFTA, other things that are happening. But our delegation just returned from China over this weekend. This is Steven Mnuchin, the treasury secretary, Wilbur Ross, Lighthizer. All of them-- coming back. And now we have to wait and see. We have to-- figure out if Trump's tough talk will start paying dividends-- and improved trade relations or if it-- pushes us the other direction and leads us potentially into a trade war. What do-- you think happens? By the way, here's a tweet from the president. I believe this was Friday night. "Our high-level delegation is on the way back from China, where they had long meetings with Chinese leaders and business representatives. We will be meeting tomorrow to determine the results, but it's hard for China in that they have become very spoiled with U.S. trade wins."

WARREN BUFFETT: Yeah. Well, the answer is I don't think we will have trade wars because-- of significance. We will have trade movements. But--in terms of the old fashioned thought of a trade war where-- you just keep piling it on-- I don't think that happens. It's counter to the interests of us. It's counters to the interests of China. It's counter to the interest of every country in the world. I mean, the world thrives on trade. We would not have the economy, nor would China, nor would the rest of the world have the economic wellbeing that they have without a lot of trade. And incidentally in 1970, we exported and imported exactly the same amount. It was about 5% of GDP. So our exports have grown to 11 and a fraction percent of GDP, which is a huge number now. I mean-- but the imports have-- there's about a three-point gap or thereabouts. And-- there will always be people trying to get edges and all of that sort of thing. But in the end-- China and the United

States have a common interest in something very big. And then we have-- a less-than-common interest in some things around the edges. It-- we will-- the world will not do something stupid over time in trade.

BECKY QUICK: Joe, did you want to jump in here? I know this is-- an issue you've been following very closely.

JOE KERNEN: It's just-- I would just a little. I mean, and I think Warren probably read this piece. But it is amazing when this alliance or whatever you want to call it between China and the United States started back in 2001, it was a different world. And-- China really was supplying cheap labor and cheap goods. And we were benefiting from that with low inflation. It kept our interest rates low. But the article, the Neil Ferguson article, points out China, no longer an emerging market. And they're looking more and more like us in terms of their economy, and consumers, and everything else. And-- at this point, it only makes sense that the trade deficit has to come down. And that's something that's not-- you know, it-- it's not unrealistic for the United States to be asking for that at this point. And China shouldn't be shocked that-- the-- and should probably make some concession. Warren, last week-- we went back and forth. We said China has more to lose. China said we have more to lose. And we went back and forth with that rhetoric. But the simple fact remains I think right now 4% of China's-- exports go to the United States. Less than 1% of our exports go to China. So-- I mean, we can affect them much more significantly than they can affect us. And it's not too much to ask for them for the trade defect to go down even though most economists say, "You shouldn't look at it that way." But, I mean, it's only fair in bilateral trade.

WARREN BUFFETT: I think it was in 2003, Joe, I wrote an article for Fortune actually about the trade deficit. I was worried about it getting too large then. Because, again, it was getting to be 3% or so of GDP. It-- wasn't specific to China at all. But it was just a question of how wise it is to let the trade deficit grow larger and larger. Because when you run-- when you are in effect buying more from other countries than they're buying from you, you are handing them investment funds. I mean, it's the nature. You give 'em little pieces of paper, and they can convert that into buying-- they can buy

government bonds. They can buy buildings here. And-- Japanese bought Pebble Beach in the 1980s when they were running a big-- surplus. I mean, so you are giving up claim checks on our country essentially in exchange for having more consumption now than you're producing in this country. And so I do think that there's levels of trade deficit that bother me. I had some system that did not make it country specific. But I think-- the world has gotten better and better. And there's no question that-- that countries may try and take advantage in this or that. And-- we've actually been guilty of that sometimes in the past, too. I don't think leaders in other countries, whether China or 100 other countries, are not smart enough-- to realize that it's in the interest to keep promoting trade. The more we trade over time. And-- we don't want it to be a question of where we important 20% of our GDP and we export nothing. Now, we could all quick working, and we could hand little pieces of paper to the rest of the world, and they could keep sending us food. And they can send us autos. And they can send us all kinds of things. But eventually they have claims on all our wealth. So-- we do want to have policies where the overall trade deficit does not get out of hand in relation to GDP. And I've been arguing that for a long, long time.

BECKY QUICK: Guys, I'm going to take a break right now. We were going to keep going. We have both Bill Gates and Charlie Munger who are going to be joining us at the top of the hour. But-- Charlie Munger's here early, and I don't want him sitting on the sideline. So we're going to take a break so we can bring him right over. And we'll have more coming up with these two-- in just a few moments. The guys are ready to kill me because I'm calling an audible, but Charlie Munger's sitting here, and I want him on set if he's here. So-- right now, we'll take a very quick break. When we come back, we'll be joined by Charlie Munger, the vice-chairman of Berkshire Hathaway. Stick around. We'll be right back.

BECKY QUICK: Good morning again, everybody. And welcome back to Omaha, Nebraska where we have been live for almost the last two hours with Warren Buffett, the chairman and CEO of Berkshire Hathaway. We are joined right now by Berkshire's vice chairman-- Charlie Munger, who's sitting down with us and joining us. And-- Charlie, thank you so much for being with us today. I really appreciate you being here.

CHARLIE MUNGER: Well, I'm delighted to be here.

BECKY QUICK: Well, let's talk about this. Between the two of you —

CHARLIE MUNGER: I'm delighted to be anywhere.

BECKY QUICK: Between the two of you, you have 181 years of experience and you've been doing this annual meeting for 53 years. I thought we could take just a minute or two-- for both of you to reflect on these meetings, how they've evolved over time and-- what it is that-- you enjoy so much about sitting with each other. Charlie, what do you think? Why don't you start?

CHARLIE MUNGER: Well, my hometown where I was raised. And, of course, I like the company and I like the shareholders and I like the festival and everybody's having a good time. And we're celebrating values as well as ourselves. And so, of course, I like it.

BECKY QUICK: Warren, what's it like sitting next to Charlie on the stage?

WARREN BUFFETT: I always learn something. And-- I certainly get surprised. And Charlie and I, we worked in the same grocery store less than four miles from here. We didn't work at the same time so we didn't know each other till 20 years later. But we've got an extremely good partnership. And-- business is more fun-- business life is more fun with a good personal partner. And to have great business partner-- you know, it just-- it-- we've accomplished more but we've also had way more fun. And Charlie and I-- and this is true, we've had-- we--disagree on a lot of things. Not-- that many, but some. We've never had an argument in the entire time we've known each other, which is almost 60 years now.

BECKY QUICK: What's one thing that Charlie's done for you? A decision, an arena-- something about your life that-- that-- that you listened to Charlie and you're better off for it?

WARREN BUFFETT: Char-- Charlie has given me the ultimate gift that a person could give to somebody else. He's made me a better person than I would otherwise have been. And that's the most you can do for somebody else. And-- I've listened to him. Not too many people I listen to but Charlie-

- you know, he's given me a lot of good advice over time. And-- I may hate to take it to a certain degree, but-- sometimes. But my decisions have been better. But I just-- I've lived a better life because of Charlie.

BECKY QUICK: Charlie, has Warren done anything for you?

CHARLIE MUNGER: Well, he talked me out leaving a law practice, which turned out to be a very good idea. Warren's-- this is a place, Berkshire, where everybody's done a lot for everybody else. And that's why people like it. I don't think all these people would come just to celebrating making a lotto money. They're here to celebrate I'd say a set of values. It's like the Catholic catechism.

BECKY QUICK: How so?

CHARLIE MUNGER: Well, it never changes, for one thing.

WARREN BUFFETT: Yeah. And usually has old guys in charge.

CHARLIE MUNGER: And there's old, white males in charge, absolutely.

WARREN BUFFETT: We're seeing the wisdom of that more and more. Now, Charlie was practicing law but I said, "Charlie, it's okay as a hobby but forget it." So.

CHARLIE MUNGER: He was right. It took him a while to convince me. But I was-- I'm a slow learner sometimes.

BECKY QUICK: People wonder how long you guys can keep doing this. Charlie, you're 94. Warren, you're 87. But you made it look pretty easy up there onstage this weekend.

WARREN BUFFETT: It-- is easy, actually, at this point. At some point it won't be. But, no, I would say it's as easy now as ever. I mean, you didn't see me enter the race that took place (LAUGH) (UNINTEL) or anything of the sort. But this job doesn't really require-- doesn't require hand eye coordination or stamina or anything. You know, you just sit at a desk and you apply things that you learned 60 or 70 years ago and they come in a little

different form now, maybe-- this way or that way. But-- it's the perfect job for somebody that wants to be working at 80 or 90.

BECKY QUICK: You mentioned that you have had disagreements in ways of thinking over the years. What's the biggest thing that either of you can remember disagreeing on? Even though it wasn't a fight or didn't get into anything, where is-- an area where one of you thought you should do something, the other one didn't, or vice versa?

CHARLIE MUNGER: I wanted Berkshire to buy the French stake in Costco when the French left.

BECKY QUICK: What year was that?

CHARLIE MUNGER: Oh, that was a long time ago.

WARREN BUFFETT: I was at a bridge-- I was playing at a bridge tournament. They actually called me out this thing-- which is very bad etiquette at bridge tournaments. And-- Charlie is saying-- basically saying-- the French firm, big retailing firm there, had about a 15% block or something like that. Charlie said, "Shut your eyes and buy it." And--

CHARLIE MUNGER: He said, "I'm going to shut my eyes and say no."

WARREN BUFFETT: I should've bought it.

BECKY QUICK: You should've bought it?

WARREN BUFFETT: Absolutely. I'll tell yes, I can't really-- I can hardly think of anything Charlie has recommended that I do that shouldn't have been done. I would do more things than Charlie would. But that's partly because I'm there, you know, eight hours a day or something. I've got a little more inclination toward action. And Charlie wants to really wait for the fat pitch. I mean, he wants-- he would-- he would be very happy hitting ten homeruns and ten homeruns at bat in the final game of the World Series of his life and just have that be it. It in securities. And--that's the right way to proceed. But I like a little more action.

BECKY QUICK: All right, the billionaires keep showing up. Bill Gates is here. We're going to have more from this Berkshire summit in just a moment.

JOE KERNEN: Welcome back-- to Squawk Box here on CNBC live from-- the NASDAQ market site in Times Square. I'm Joe Kernen along with Andrew Ross Sorkin and Becky is in Omaha. Big hour coming up. A billionaire summit-- in Omaha. Berkshire Hathaway vice chair Charlie Munger and Microsoft cofounder Bill Gates-- will join Becky alongside Warren Buffett live. That's-- coming up in just a moment. First though, a quick check-- on the markets. We've been right around triple digits on the Dow, either just above or just below, now up about 92 on the Dow, up about-- ten on the S&P 500. And the NASDAQ-- indicated up 41 points. The ten year has been under 3% for a few sessions now, 2.96%, 2.95%-- at this point. And-- I don't know if we-- think it's okay to, like, add up three guys, how much they're worth and say that's how-- yeah, that's not what it's about is it, Andrew? Really?

ANDREW ROSS SORKIN: It's not about money.

JOE KERNEN: Now, do you-- if-- correct me if-- when you get up in the morning, do you put on - I still put on one pants leg at a time--

ANDREW ROSS SORKIN: One pant--

JOE KERNEN: --you?

ANDREW ROSS SORKIN: --leg at a time.

JOE KERNEN: Can you ask those guys--

ANDREW ROSS SORKIN: And-- these guys do--

JOE KERNEN: Becky-- yeah, find out--

ANDREW ROSS SORKIN: They do.

JOE KERNEN: I don't know. Maybe they don't. Maybe they're able to get on a ladder and jump in--

ANDREW ROSS SORKIN: I assure you, they do.

JOE KERNEN: They do?

ANDREW ROSS SORKIN: We're going' to get back to Becky, who is in Omaha this morning and she has three now very special guests.

JOE KERNEN: Six pant legs--

ANDREW ROSS SORKIN: Becky.

JOE KERNEN: Six legs.

BECKY QUICK: No, no, my guess is they put their pants on the same way you do, Joe. But I'd still rather hear their opinion than yours. Let's get to our billionaire summit this morning. Joining us right now is Bill Gates. He is the cofounder of Microsoft. He's also a Berkshire board member. Charlie Munger is the vice chairman of Berkshire Hathaway and still with us this morning, Warren Buffett, who's the chairman and CEO of Berkshire Hathaway. And gentlemen, welcome. Thank you all for being here this morning.

WARREN BUFFETT: Thanks for having' us.

BECKY QUICK: I was trying' to figure out how to get into these conversations with the three of you. And it's-- always difficult. The three of you are brilliant thinkers. It can be a little intimidating. But I was thinking back over the years of the times that we've sat down. And you are all very similar-- in a lotto ways. You're analytical thinkers, you're logical thinkers. You're voracious readers. And you're-- all people who think knowledge is the ultimate quest. You want to figure out how the world works. But it occurs to me that part of the reason that your friends is not just because of what you share in common, but that sometimes you have differing opinions on these things. And you probably like to challenge each other on some of these issues. And I thought maybe we could tease out some of those issues this morning, where you may not see eye to eye exactly on things. You may have more nuanced views on areas. So I'm just going to throw up some areas this morning and see where you all agree and see where you all differ. And so I'll start with the idea of the markets because this is where we started with

Warren this morning at 6:00 a.m. -- 6:00 a.m. eastern, I should point out. Just the idea of where the markets are right now. Are they fairly valued? Are they expensive? Is it hard to find things that you like? Bill, why don't we start with you since you're just sitting down with us? Warren pointed out that it looks pretty expensive to him on a lot of private deals that come along. And it's pretty hard to find bargains in the market. You're a big investor too. What--do you think when you look at the market today?

BILL GATES: Well, in terms of absolute returns, you've got the ten year around 3%. And so that's your risk free rate in dollars. So expecting to make a lot more than 3% on things-- you know, either you're being smarter than everybody else, or you're taking some level of risk. So with-- absolute returns are predicted to be lower-- over these next ten years than they've been in most ten year periods.

BECKY QUICK: Absolute returns on stock?

BILL GATES: On all asset classes. The--T-bill sets the rules. But strength of gravity-- and so I don't know-- you know, if you ask investors, I think they expect to earn, you know, just say state pension plans-- have 7.5%, a few still at 8%. That's an unrealistic expectation which makes those deficits a little worse. Actually, quite a bit worse than they appear on paper.

BECKY QUICK: Uh-huh. Charlie, what do you think?

CHARLIE MUNGER: I agree. I agree with Bill.

BECKY QUICK: You have nothing further to add?

CHARLIE MUNGER: I have nothing further to add.

BECKY QUICK: All right, we--

CHARLIE MUNGER: But-- except one thing. I think Berkshire's going to do a little better.

BECKY QUICK: Bill, you agree with that too?

BILL GATES: Oh, absolutely.

BECKY QUICK: So what-- does Berkshire do that gives it that advantage? Is it--

CHARLIE MUNGER: We're less crazy. The way we just-- there're certain bad habits we don't have.

BECKY QUICK: Such as?

CHARLIE MUNGER: There're a million ways to be irrational. And while we are irrational pretty often, we're less often irrational than most people. That really helps.

WARREN BUFFETT: Our bad habits are not financial.

BECKY QUICK: I don't suppose you want to go into any detail there.

WARREN BUFFETT: I'm talking' about Charlie's-- I'm not going to talk about--

BECKY QUICK: All right. Let's-- talk a little bit about-- the dabbling you all may do. You-- each have your own money, aside from Berkshire money, that you look and you invest. And Charlie, I know you've looked to China a lotto times when you start looking at places that you like.

CHARLIE MUNGER: The Munger family has invested in China substantially.

BECKY QUICK: Since when and why?

CHARLIE MUNGER: Since about 14 years ago. And I did it because I respected the man who was going to do the investing. And it all looked inexpensive to me. And the companies looked very strong to me. And, of course, this worked out. I've done way better than I had any right to expect.

BECKY QUICK: Does it still look that way when you look to the Chinese market?

CHARLIE MUNGER: I think that the best companies in China are cheaper than the best companies in the United States.

BECKY QUICK: The concern other investors might have before they-- follow in that way is that they don't know that much about Chinese companies and maybe--

CHARLIE MUNGER: They're just generally afraid of China.

BECKY QUICK: Is there a reason that they may have some-- I mean, you have people who are guiding you, who understand China well. If someone was tryin' to do this on their own, would it be a little more dangerous?

CHARLIE MUNGER: Sure. It really helps to understand the country you're operating in. Of course.

BECKY QUICK: All right, that's a stupid question moment. You would not necessarily advise others to do this, I guess is my point, for investors who are sitting at home watching?

CHARLIE MUNGER: I don't think it would be all that hard for any smart person to find four or five great companies in China to invest in.

BECKY QUICK: All right. Bill, how about you? When you look around, what areas are catching your fancy? I know of things that you've done in the past, areas where you've-- kind of gotten into currency markets or done different things, but what are you thinking right now? What--captures your attention?

BILL GATES: Well, my tech-- investing is almost entirely the Microsoft stock. I think in terms of-- things that will have super high returns, there are tech stocks that are undervalued. You're just going to get very high variance-- out of tech stocks because you have some markets where the winner ends up getting a substantial profit pool. Because I don't want to have a conflict with Microsoft-- I don't invest a lot in other tech stocks. But I create a fantasy portfolio to see if my predictive powers is good or not. And outside of that, I have a team of people who invest. And they're quite diversified. They have-- a fair bit in China. China looks quite attractive.

BECKY QUICK: Who's on your fantasy technology league?

BILL GATES: I probably shouldn't--talk about that. I mean, there're some that are still private-- like AirBnB, which-- you know, at a fair (LAUGH) valuation-- that's-- a strong long term business.

BECKY QUICK: Why?

BILL GATES: Because they serve customers globally. And so the-- reputation and listings they have you can't just go into one city like you might for a ride service and bomb the prices, you know, go get the drivers and do a lot of marketing. And-- just compete in that one city. Here, you have to have a global reputation, global inventory. And so it just makes challenging that leader position far more difficult.

BECKY QUICK: I--mean, I've always kind of thought of AirBnB and the ride services as having some of the similar risks-- in terms of local regulations that could get in the way with things. Does that not concern you with an AirBnB?

BILL GATES: Oh, absolutely. But they're-- you know, city by city they get to deal with that. It's a barrier to entry for other people who come along. I-- the competitive dynamics for the ride services versus the-- AirBnB are different in AirBnB's favorite.

BECKY QUICK: I won't ask you for your entire list of fantasy technology companies 'cause you already told me you wouldn't tell me. But is Apple on that list with Berkshire plowing so much money into it?

BILL GATES: Well, Apple's an amazing company. And the multiple's not gigantic. And it's not a tech speculative company where it's still losing money or anything. So, you know, I think Warren's applied, you know, great thinking there. The top tech companies do have-- a very strong profit position right now. But Apple-- has the most of all.

BECKY QUICK: And Warren, I guess when you have described this company, the reason you like Apple is-- not reasons that are technology based reasons. You think of it as a consumer--

WARREN BUFFETT: It's a c--

BECKY QUICK: --goods company.

WARREN BUFFETT: I mean, it's the consumer behavior with the product-- what they do with it, how it becomes part of their lives and all that sort of thing-- that I observe and primarily reason from. Now, if there was something coming out tomorrow that would obsolete everything that made it attractive to that group, you know, Bill would know it before I would. But it has a position in consumers' minds that is-- and a utility to them that's very, very, very useful. And it's an incredible ecosystem that they have found ways to profit more from as they've gone along. I should mention that both of these fellows-- have done way better with their non-Berkshire holdings than I have.

BECKY QUICK: Warren, you don't even have an iPhone so--

WARREN BUFFETT: A fellow sent me-- a ten the other day. But I haven't-- I'm not using it yet. A very nice fellow though. He even explained-- I think he-- I think he pretended he was writing to his three year old child. And he wrote me this very nice letter and explained-- what to do with it, it wouldn't bite me or, you know, do anything like that. And--- I'm kind of screwing up my courage here. And one of these days-- I'll move.

BECKY QUICK: Charlie, do you have an iPhone?

CHARLIE MUNGER: Of course not.

BECKY QUICK: What do you think about Apple?

CHARLIE MUNGER: I've given up my adding machine.

BECKY QUICK: What do you think about Apple? Do you have a thought on the stock?

CHARLIE MUNGER: Yes. I wish we owned more of it.

WARREN BUFFETT: Yeah, we talked about it.

CHARLIE MUNGER: I wish we owned more of it.

BECKY QUICK: Why?

CHARLIE MUNGER: I think we've been a little too restrained.

BECKY QUICK: \$43 billion's not enough?

CHARLIE MUNGER: No.

BECKY QUICK: What--do you like about the company?

CHARLIE MUNGER: Well, I like the fact that it's reasonably priced and strong. That's a very desirable combination.

WARREN BUFFETT: And the management--

CHARLIE MUNGER: I like the management--

WARREN BUFFETT: Tells us --

CHARLIE MUNGER: Yes. Oh, yes. Very intelligent management.

BECKY QUICK: Let me ask you, Charlie, about some comments that you made over the weekend-- that people paid attention to. My Twitter feed lit up when I tweeted about some of them. Specifically when you started talking about Bitcoin as turds. What-- why--

WARREN BUFFETT: I'm surprised that attracted any attention.

BECKY QUICK: Why did you equate the two?

CHARLIE MUNGER: Well, Bitcoin is worthless, artificial gold which, if it succeeded... a lot of illicit activity. Now, that is not something I think the world needs. And the fact that it's clever computer science doesn't mean that it should be widely used and that respectable people should encourage other people to speculate on it. Bitcoin reminds me of Oscar Wilde's definition of fox hunting, the pursuit of the uneatable by the unspeakable.

WARREN BUFFETT: Well, it sounds better than what he used before.

BECKY QUICK: We- asked earlier, Charlie, - Andrew brought it up with Warren, but--

CHARLIE MUNGER: I think it's a scum ball activity. Does that bet-- serve you better?

BECKY QUICK: Thank you. Yeah. We-- asked earlier about Goldman Sachs getting into the business of having a trading desk for Bitcoin. Berkshire Hathaway owns about \$2.5 billion of Goldman Sachs. Does it bother you or does it not surprise you, just--

CHARLIE MUNGER: Well, I don't expect every investment bank to agree with everything I think. They have a lot of animal spirits in investment banking.

BECKY QUICK: Bill, Charlie and Warren have weighed in on Bitcoin. Do you own any?

BILL GATES: Somebody gave me some for my birthday. And then a few years later, I thought, "Hey, I'm going to sell that." So no. There's some really good technology in terms of sharing databases and verifying transactions-- that is talked about as block chain. That is a good thing. Bitcoin and eye codes, I agree completely-- it's one of the crazier speculative things where it's not as an asset class, you're not producing anything. And so you shouldn't expect it to go up. It's-- kind of a pure, greater fool theory type-- investment. So, you know, I-- agree. I would short it if there was an easy way to do it.

WARREN BUFFETT: One of the-- interesting things. If people react-- when you criticize their investment, if they get mad, they're gambling. You know, if somebody criticizes Apple or Berkshire, we like it. I mean, if the stock goes down, we'll buy more of it-- because-- it's-- we don't care whether it just-- we don't feel that it has anything to do with us. But if we criticize something that they own because they only want it to go up tomorrow-- they feel we are hurting them. And therefore, they get very upset about it. If they really liked

what they owned, what difference would it make, you know? If I criticize their wife or something, they don't get all upset about it.

BILL GATES: That's a bad habit.

WARREN BUFFETT: Yeah, that's-- yeah. Yeah, it's probably not the perfect-- example to use.

BECKY QUICK: In terms of privacy issues-- we--spoke with-- Warren about this earlier. What's happened in Silicon Valley, privacy issues surrounding Facebook and Twitter and Google and Apple and how that has kind of weighed on those same stocks has a lot of people looking towards Washington, wondering if there will be regulation that comes down-- and looking towards the European Union, where regulation is coming this month. Bill, you've dealt with regulatory-- close scrutiny in the past. Is this something that you think is likely to have an impact in Silicon Valley? Will the regulators come? Will it change things in Silicon Valley and will it make it tougher for these companies to follow their business models?

BILL GATES: Well, privacy's a super important issue. But I do think that the big companies, even as regulation comes, which is-- inevitable-- they'll be able to handle it. People don't mind having a little bit of demographic information about themselves used to target ads. That's-- value added to the user. And there are issues about medical records or the content of your communications that are-- very private. One challenge with the privacy laws is making sure small companies can still-- get involved in the ad market. These rules could block-- lots of new companies. So I-- think the challenge of privacy can be met. The challenge of what gets published on a platform-- hate speech, free speech-- fake news and what you allow people to get outraged about, you know, and what you should do, every government has a view. And so making sure the government takes responsibility for those rules, I think that's one of the toughest things for any platform where people are expressing opinions. So--

BECKY QUICK: I mean--

BILL GATES: --that's a separate issue. And I think the harder of the two.

BECKY QUICK: You mean acting as a publisher rather than a bulletin board, going all the way back to CompuServe?

BILL GATES: Right. And if people expect you to stop certain things and not others, they'll always do that in retrospect. And it's a real-time system with millions of people writing things. Those judgment calls, you need-- some standards group of the government, not a private corporation to make those calls.

BECKY QUICK: Charlie, what do you think?

CHARLIE MUNGER: Well, I think we always use television ads to flog the idiots of each party to the polls. And to-- sell 'em in a very misleading way. And we're just shifting the misleading ads to a different medium. I do think it works better. In other words, I think the Facebook thing, it's really good at flogging angry idiots to the polls. And I think that changes the equation some.

BECKY QUICK: Changes the equation meaning you think it would--

CHARLIE MUNGER: Meaning it has an effect on politics.

BECKY QUICK: It has an effect on politics and therefore will bring in regulation?

CHARLIE MUNGER: I don't-- I think it therefore won't bring in regulation.

BECKY QUICK: 'Cause the politicians--

CHARLIE MUNGER: It's hard to control people who want to be silly about politics.

BECKY QUICK: Andrew has a question too. Andrew?

ANDREW ROSS SORKIN: I was just going to ask Bill, but everybody can weigh in on this. Given the ownership of Geico, maybe you have some insight into it as well-- Warren and Charlie. I was thinking of autonomous vehicles, where you guys were talking about technology and even Elon

Musk-- with Tesla. When you look at the cars that are-- and the car market that's out there, do you see in terms of technology any of them-- doing better-- than the other? And--what do you think of Tesla actually-- as an investment itself?

BECKY QUICK: Bill?

CHARLIE MUNGER: I don't want to weigh in on Tesla.

BILL GATES: Yeah, Tesla's-- making a great product. They have a very high valuation and they will experience-- all the auto makers coming in and competing with them. And-- so it's not like some tech markets that the leader gets all that-- market share. It's going to be a tougher thing. The-- move to autonomous and electric are proceeding in parallel. And if you take-- you know, 15 year timeframe, it's going to be a very, very dramatic change. You know, I tend to be optimistic about technology adoption. And I think worldwide, while there's a lot of cities that want to be the first to get in with these cheap autonomous services. So-- it's exciting and the other car companies now have been forced to have strategies for electric cars and autonomous. Some have very impressive plans.

ANDREW ROSS SORKIN: Are there lower insurance--

BECKY QUICK: Warren, what-- does-- oh, go ahead, Andrew.

ANDREW ROSS SORKIN: I was just going to say are there lower insurance rates, talking about-- thinking about Geico, for a Tesla or for the new Cadillac that has-- some kind of-- semi-autonomous driving you know, some of these new features that-- that allow the computer to drive a little bit more than the human?

WARREN BUFFETT: Yeah, the-- presumably, any cars that catch on big are going to be safer. And a safer car is going to bring lower insurance rates. There's one some-- there's-- modest offset to that in that, in terms of-- collision activity-- the damage is done to a car by-- in terms of a bumper or-- a side rearview mirror something. Costs far more now-- it's a much more complex product. So the damage per accident, not human damage, but

physical damage to the car, that will probably go up substantially. But the number of accidents won't-- you won't see widespread adoption unless they're safer. And-- we want a safer car. So it's-- net, it will be bad for the-- auto insurance industry over time if autonomous cars become-- a big part of the fleet.

BECKY QUICK: Bill just mentioned that over the next 15 years you are going to see some pretty significant changes. Is that the timeframe that Geico is looking at that too?

WARREN BUFFETT: Well, it-- we don't know, I mean, what it'll be. And you've got 260 million cars on the road. Let's just say that 10% of the people took up-- autonomous cars in a year. Now you're talking about-- a million eight out the 18 million. And-- there's-- a big life cycle to it and all that. But what does best for the consumer and is safer over time really will prevail-- over time. It-- and that's good for the American public. It's very hard to tell who the winner will be. Or there-- won't-- it-- was hard under the conventional car to pick out which would be the company that was doing the best ten years earlier. That's why Charlie and I have talked about the auto industry for-- forever. So it's very hard to pick winners. And it'll be hard to pick winners five years from now. Nobody's going to own the market or anything of the sort.

CHARLIE MUNGER: I am amazed at how good almost all the cars are. With all those several mechanisms and all that electricity scattered through, you can buy a car and drive it ten years with practically no trouble. It's an amazing achievement.

BECKY QUICK: I mean, you were big on the electric vehicles too with BYD.

CHARLIE MUNGER: Well, you got to remember in China, you couldn't breathe the air in the city. So I thought they might end up with more electric cars. Wasn't a very difficult idea.

BECKY QUICK: Let's talk a little bit about Berkshire overall and some of the changes that we've seen this year. Ajit Jain and Greg Abel named as-- co-vice

chairmen along with Charlie on this. How has it changed your day to day life, Warren?

WARREN BUFFETT: Well, not a lot, but it's made it easier. It was already easy to start with. I mean-- but -- the-- really easy. But the 5% that I didn't like, I just said, "Well, those are your new-- responsibility--" that's the way I selected what their responsibilities would be. And-- it-- well, Charlie could tell you, it's changed our lives very little, but all for the better. It's been very, very good for Berkshire and it's been even better for me.

BECKY QUICK: Charlie, you were a proponent of this. I think it was your idea-- to name them vice chairmen--

CHARLIE MUNGER: Well, it was hardly-- you could hardly find two people who've done better in their jobs in all of America. Very outstanding people. The truth is that we're too late.

BECKY QUICK: Bill, I know succession is-- a common, or constant-- topic with the rest of the board members. What does the board think about this, about these positioning and now that they're both board members too, what does that mean just from board's perspective?

BILL GATES: Well, it's exciting to have two, you know, highly energetic, super capable people helping out Warren. And now as board members. I've gotten to know both of them-- for over ten years. And I'm just amazed at-- what they bring. They understand the Berkshire culture because they've been inside it and have benefited from it. So it's great news.

BECKY QUICK: There're people who are wondering if this was creating a horserace for-- successor. I heard Ron Olson s-- knocking down that idea over the weekend. How-- would you respond to that?

BILL GATES: No, it's-- not a horserace or-- being the successor. That's-- not a good way to characterize it.

BECKY QUICK: What is the right way to characterize it?

BILL GATES: That-- the number of businesses that report to Warren-- is a pretty unbelievable number. And so now you've gone from one person with all those businesses reporting to him, to three people. So the company's not adding, you know, a lot of staff, you know, under Greg and under Ajit. You just have three great business minds-- managing, you know, over 50-- business entities. So it's still one of the leanest management structures you ever seen. If you draw it out as an org chart, you have to have one of the widest pieces of paper ever, even with the three now. So-- you know, Berkshire's still very, very unique.

BECKY QUICK: All right. Folks, we are going to have more of this conversation with Warren Buffett, Charlie Munger and Bill Gates. We will be back with more from Omaha, Nebraska, right after this. (MUSIC)

BECKY QUICK: Welcome back to a special edition of "Squawk Box." We are live from Omaha, Nebraska. And we are joined this morning by Bill Gates, the cofounder of Microsoft and a Berkshire board member. Charlie Munger, who's the vice chair of Berkshire Hathaway, and Warren Buffett, who is the chairman and CEO of Berkshire. And gentlemen, the last half hour we've kind of been delving through your thoughts on the markets, on technology, on privacy issues, on Bitcoin. I thought we might take this next half hour and go a little broader because all three of you have big ideas about the world and how to fix it. You have spent a considerable amount of money and time on philanthropic projects, on trying to find ways to move beyond. And you all happen to know a lot about so many different things. One of the issues that's been so much in the headlines over the last six months or so has been Berkshire's move to go along with JPMorgan and Amazon to try and come up with a way to reign in health care cost and health care cost inflation in the United States. Warren, we've talked with you about this but we haven't gotten the chance to talk with Bill and Charlie so much about this. For those who don't know it, by the way, Charlie for the last 31 years, has been the chairman of the board at Good Samaritan Hospital in Los Angeles. So he knows an awful lot about health care. Bill Gates has worked tirelessly when it comes to health care issues around the globe. In fact, the Gates Foundation has invested \$12 billion in global health initiatives just over the last five years. So for anybody who's wondering about your credentials on this, there

they are. Why don't we start with you, Bill? What do you think about the idea of trying to tackle health care cost inflation and how that might be tackled in the United States? Is this something that could get traction?

BILL GATES: Well, I think other than improving the education system, making sure that health care costs don't continue to go up so rapidly is the biggest issue. If you look at state governments, over time, they've had to shift money away from education and infrastructure, into the various health care expenses they have. And so it's a problem for the government, it's a problem for business. So any effort to take a look at this system and how we use the latest technology to make it more efficient, to reward the low cost providers so that they gain market share, I think that's fantastic. I've studied it a lot. And I don't think it's an easy thing to fix. But it's fantastic that the three companies are going to work together. To the degree they succeed, there are hundreds of companies that would love to join in. But first, they've got to hire some people and it's got to come into focus.

BECKY QUICK: Charlie, let's just talk about how fixable you think this problem is. Do you see a lot of rampant waste when it comes to these issues at least from your perspective at the hospital?

CHARLIE MUNGER: Rampant waste is a good phrase, of course. But our system is shot through with rampant waste. And a lot of the medical care we do deliver is wrong. And so, expensive and wrong is ridiculous. A lot of our medical providers artificially prolong death so they can make more money. I regard that as deeply immoral. And there's a lot of it. And so I think the first time the Democrats control all three branches of government, we will get single payer medicine. I think it's so bad, that people will reach out for a complete change forced by the government. To have a young person have a \$5,000 deductible when he has a baby, that's not insurance anymore. It's some stratagem to make things better for some insurance company. But it's not really medical insurance. This whole system is shot through with defects. And, of course, I welcome the fact that Berkshire is trying to make it a little better in some ways.

BECKY QUICK: If you could fix it, how would you go about doing it? Are there maybe not easy ways, but are there obvious ways of trying to tackle that?

CHARLIE MUNGER: It's very hard to get to a system like Singapore's, which costs about 20% of what our system does and works better. From where we are now, we will never get there, in my opinion. In a big, rich nation like ours. But we can have a better system than we have now.

BECKY QUICK: Would universal health care be the answer? You said you think that's what would happen.

CHARLIE MUNGER: Well, there're many defects in universal health care. But universal health care with an opt out, which they have in all the advanced nations - England, Canada and so forth - it's a perfectly reasonable system. And it exists everywhere else. So I'm not frightened of it.

BECKY QUICK: Universal health care with an opt out being basically universal health care that rich people pay more for and get a different level of care, is that -

CHARLIE MUNGER: Sure. Even in Singapore if you want a better hospital room, you don't get a better doctor or a better nurse, but they'll give you a better hospital room if you want to pay for it.

BECKY QUICK: Andrew has a question.

CHARLIE MUNGER: I see nothing wrong with that.

BECKY QUICK: Andrew has a question too. I'm assuming it jumps onto this. Andrew?

ANDREW ROSS SORKIN: It does on the health care front. And it's for Warren. Warren, historically, you've allowed all the managers at Berkshire to run their groups autonomously and haven't imposed different programs from headquarters. I'm curious when you do implement the health care program with Amazon and JPMorgan, whether it will be voluntary for the

managers to effectively choose to be part of it, or whether it'll be something that they're going to have to do.

WARREN BUFFETT: Well, A, I may not be around when that takes place. That may be sometime in the – this is an extraordinarily difficult project. I mean, this is not – and I think it might well be reasonably easy to make – do a little something here and there. But we're really hoping that something that has gone from 5% of GDP to 18% of GDP and just keeps moving, we can do something about it. You know, we have not picked an easy task. You've got \$3.3 trillion or something like that spent on the health care system. And every dollar, just like in government, every dollar has – hits a constituency, has a defender. And I do think it's so important that it should be tried. And what I would tell our managers, and I've told our managers, that we will never – we will not be coming up with something that hurts them in terms of the care they receive. And it's going – if we come up with any kind of an improved product, I can guarantee you they will like it. I won't have to – no one will have to stuff it down their throat. I mean, and we will have people join us. But it is really an uphill climb. But we should be doing it.

BECKY QUICK: You said over the weekend that you hope to have a CEO named for this new initiative between the three companies in the next couple of months.

WARREN BUFFETT: Yes.

BECKY QUICK: Has it been narrowed down significantly, the search?

WARREN BUFFETT: It's been narrowed down to, yeah, a very few. And it's by far the most important decision we'll make. I mean, there's no way – and we've got plenty of people who want the job. But it is an extraordinarily difficult job because you have to be very – you have to be plenty knowledgeable about, enormously knowledgeable about the system. But you have to be able to get your mind beyond it and you have to understand who your opponents will be, you have to understand public opinion. And you have to, you know, you could bargain down costs in some areas 1%, or 2%. But we really hope we can find the perfect person in terms of being able to make a real jump. And as Charlie will tell you, there's some history in terms of what happened.

CHARLIE MUNGER: When Rockefeller totally revolutionized American health care for the better, he went after the low hanging fruit. He went after the charlatans and the quacks and so forth. And my guess is that Berkshire will find some low hanging fruit.

BECKY QUICK: If you had to guess where that low hanging fruit would be —

CHARLIE MUNGER: Oh, I know there's a lot of low hanging — I don't want to say.

BECKY QUICK: Okay.

WARREN BUFFETT: We will whisper it to our new CEO, though.

BECKY QUICK: Well, speaking of the new CEO, I realize that this is something that Todd Combs is heading it up. But given your expertise, Charlie and Bill, have you had any input into what should happen with this, who the new CEO should be?

BILL GATES: Well, Todd's a great learner. And he and I have brainstormed about, you know, what health care looks like. But not specifically on who gets hired. You know, I think there's three things that are very separable. If Berkshire, you know, finds a way to optimize its health care cost, versus the entire U.S. health care system and access versus cost are two different things. If you add access, unless you're very careful like a universal coverage, it will actually drive up costs pretty dramatically.

BECKY QUICK: And potentially lower standards or lower what access people get.

BILL GATES: Right. So when, you know, Vermont costed out what universal care would cost, even the proponents were stunned at the cost. So we have to perform two miracles. We have to get better access in America and get the cost down.

WARREN BUFFETT: Probably couple other miracles we don't even know about. The goal is not to reduce Berkshire's costs. And we will have a CEO

and I hope, I would expect within a couple of months. And we will need a remarkable individual. That person will have to also have a number of remarkable people who wish to join the person. That's one of the things, you have to have somebody that does attract other talent, so on. And so nothing's going to happen fast, except we do want to get the CEO in place, obviously. But they're not going to turn the whole system upside down immediately. But you want somebody that thinks about where you want to be in five years and figure out some path toward that.

BECKY QUICK: I mean, obviously the person has to be an expert in health care, but from which arena? Because whatever arena they're coming from –

WARREN BUFFETT: Well, sure. Yeah, if you'd talk to somebody that's run a hospital for 20 years, they think everything but the hospital's a problem, you know? And if you talk to some, I mean, it's just the way it is.

BECKY QUICK: Right. Let's talk a little bit more broadly about some of the issues that we're seeing today. Earlier, we spoke with Warren about trade issues, particularly with China, with our delegation just coming back from China. But trade has been a big issue when it comes to NAFTA, when it comes to our trade agreements around the world. And the strategy from the Trump administration has been a little different than what we've seen from previous administrations. Maybe now we're going to find out if it works or not. We're at that point. Charlie, what do you think about whether or not we're going to wind up in trade wars or whether you think we get better trade agreements as a result?

CHARLIE MUNGER: I'm pretty optimistic about China and the United States working together. It would be insane for them not to work together and not to develop a trusting, constructive relationship. And I have no reason to think that that won't happen.

BECKY QUICK: Bill?

BILL GATES: I agree. Although I would say the U.S. is making that a bit challenging right at the moment in terms of predictability and stability and finding the right approach. You know, we're all big believers in the large

benefits of trade. And so, the fact that the sentiments have turned against it, you know, do you need to do more to help those who aren't hurt by trade? Politically, it's impressive that free trade was not supported by either candidate.

BECKY QUICK: You mean in the U.S. election?

BILL GATES: Exactly.

BECKY QUICK: Right. It may be the blowback after what happened in 2008 and 2009. People who felt like they got left behind and who haven't caught up with others. I'm not sure how else to handle that. What the right way about going to do that would've been. But Bill, you're somebody who has to go from nation to nation, country to country, and through the foundation and your work there, kind of hope that everyone can work together. Has it gotten tougher to do that, or is it the same as it was before?

BILL GATES: Well, the most important relationship in the world is between the United States and China. And you could imagine lots of win-win things with trade, with innovation, with helping to drive stability for the world, where countries with very different histories, very different governments. And so you do worry as you watch even in these last few months, the sparks fly. But I think logic will prevail. Our foundation has worked a lot with the Chinese government. And we're excited they're becoming a bigger aid donor. So even for the work we do to help poor countries, having this relationship be strong would be very, very helpful.

WARREN BUFFETT: Bill and Melinda as well have actually done very big and important things in terms of getting countries to work together in the health field. And they have brought the world closer together in terms of attacking particularly vaccines, but a number of things to do with health. And over time, that sort of thing will prevail in the world. I mean, when people see something working and their lives greatest better, and you mentioned the problem of the prosperity, I mean, if countries get far more prosperous, they should figure out a way that all of their citizenry participate in some way. You want to keep the market system – does wonders and all of that. But you have seen what you can actually look at what Bill and

Melinda have done. And they have influenced other countries to act cooperatively. And it's a tremendous achievement.

BECKY QUICK: You all have been incredibly philanthropic. You've given billions and billions of dollars away. But if you had to look and try and find one arena, one topic, one place that you think gets underserved, aside from what you're already doing with your own money, with the foundation money, is there an area where you would look and say, "Hey, here's another thing that needs some additional funding. It's overlooked and it's very deserving"? Bill, what do you think?

BILL GATES: Well, there are so many important causes out there. You know, we picked global health and education. And by sort of specializing in those, you can do a good job. But-- the-- needs are-- really vast. Some philanthropists are working in the U.S. Justice System-- to deal with the inequities there. We do some work on poverty, but there's many others-- who have different cuts on that. You know, the beauty of philanthropy is you're taking on-- you know, these social-- goals-- that are very, very difficult to achieve and trying to show government how to do-- a better job. And so it's been rewarding. There's a lot of progress. But there're so many causes. And-- as Warren and I encourage other people to do philanthropy, you know, we hope they'll pick-- one of these unmet areas and get a passion for it and bring their same skills they had in business-- because that's-- huge probably rather, even beyond the money.

BECKY QUICK: You're talking about through the giving pledge, where you--

BILL GATES: Through-- ideally, through the giving pledge. I mean, we sit and talk to people about philanthropy. And most of those people do end up -- joining the pledge.

BECKY QUICK: Charlie, how about you? What-- area --

CHARLIE MUNGER: Well, better drugs and devices have the advantage. They work almost automatically. And the one I see-- that will change the world is the new IUD is a huge contribution to human civilization. And it's

just sweeping. It's and it's going to change-- that's going to change lives. And the beauty of that, it didn't require any government, didn't require any pompous bureaucracy. S-- They just invented a better way of doing it and it spreads automatically. We-- I love that kind of thing. And, of course, I like the vaccinations. Think of the good that it does to do the vaccinations. And, of course, if you vaccinate and I don't, it doesn't work as well. So naturally, the nation's cooperate. But Bill's going to get more cooperation than Warren is.

BECKY QUICK: Because?

CHARLIE MUNGER: He-- has more incentive for the people to be-- agree with Bill. Warren's taking -- interests aren't going to like it at all.

BECKY QUICK: Bill, very quickly, before we go to Warren on this-- can you give us an update on where polio stands right now, just speaking of these vaccinations?

BILL GATES: Well, we have two countries that we haven't gotten rid of polio and it's-- Pakistan and Afghanistan. We're making sure it doesn't travel to other parts of the world. So we have to keep the vaccination rates up. And-- we're doing a better job getting out to all the children in those two countries. So with luck, this could be the last year with cases. But it's very tough. You know, it's-- every morning I get up and see, okay, what-- does the case count look like? And we actually sample the sewage to see if there's any-- polio being transmitted. So we're very close. But zero's the magic number. If you miss it then, you know, you have to go another year. So we've-- got our fingers crossed.

BECKY QUICK: The reason that you sample sewer-- samples is because --?

BILL GATES: Amazingly, if a kid has polio and they're in that city, if you go look in the sewage, there-- there're so many viruses-- out of even a single kid, that we can detect it. And we can see which virus it's like. And so we can understand where it came from. So that's actually our best tool, is that-- we politely say environmental sampling.

WARREN BUFFETT: You could see why I delegate philanthropy. I-- my-- urge to sample sewage has not been--

BILL GATES: We're back--

WARREN BUFFETT: I've gotten to 87 without any urge -- any urge to sample sewage. Bill gets excited about it.

CHARLIE MUNGER: Well, Bill Gates has-- a huge advantage. Nobody's in favor of infantile paralysis. And a lot of people are in favor of medical practice as counterproductive.

BECKY QUICK: Although-- it's not a slam dunk for the vaccinations. You've had trouble-- with some cultures-- who don't like you coming in there and some vaccination workers who have gotten into big trouble too.

BILL GATES: Well, you get rumors about vaccines-- even in the U.S.-- that is this good for the child if you s-- have a child that gets a fever afterwards, people worry about that. So you have to constantly remind people of how beneficial it is. And-- every once in a while, when you-- coverage rates go down, then you'll get lots of measles-- or pertussis-- coming in. So people who understand really want these things. And the progress has been phenomenal. But we have to create demand as well as supply to meet our goals.

BECKY QUICK: Warren, I want to come back to you just in terms of-- finding a cause that you think is important, that you maybe hope somebody else will-- spend some time on.

WARREN BUFFETT: Well, I think the number one problem of mankind is weapons of mass destruction. I mean, we have learned since 1945-- how somebody with bad intent or some organization with bad intent or m-- occasionally, some government with bad intent, the-- knowledge is there of how to-- kill millions of people. And-- in some cases, the intent might be there. The materials have been hard in the case of nuclear to some extent, and now you've added cyber to the equation. So that's the n-- I consider that the number one problem of mankind. I'm-- I don't know how to use money to fight

it-- particularly. And-- but then I believe in-- in-- in-- in women having the right to decide-- what to do with their bodies. And that's been-- advanced very considerably. But there's-- still a lot of work to be done there. But-- I believe the number one problem to get beyond weapons of mass destruction in the United States is to figure out-- how to maintain all the benefits of a market system works-- which works wondrously in creating more output all of the time. And-- at the same time, make sure that people-- that are-- really don't fit a market system very well, still lead des-- l-- live decent lives. And-- we've got the resources to do it. And-- we've made a lot of progress on that. Social Security was progress. I mean, we-- take better care of our young and old. But we don't-- we haven't figured out the way to take some-- very good care of somebody that just doesn't fit into the market system but is a perfectly decent citizen. And a rich society should-- solve that one.

BECKY QUICK: Andrew has a question as well. Andrew?

ANDREW ROSS SORKIN: I don't have a serious question, Becky. I have-- a hopefully fun question for the-- for the bunch. This is actually a question-- Warren that came in over the weekend-- from a guy who was in the audience, Alexis Ohanian, who's the CEO of Reddit. He's also the husband of Serena Williams. He was desperate for us to ask this question so I'm going to ask of you. Bill Gates has, by the way, already been asked this question. It's a famous question on Reddit-- in these Ask Me Anything-- sessions that they do. It's a bit of a logic train-- question. So the question is this, and I don't know if -- you've ever heard it. Would you want to battle a - one horse sized duck or 100 duck sized horses? And there's huge debate on the internet about what the right answer is to this question.

WARREN BUFFETT: Well, you've gone to the wrong place to find the answer. I'll-- I will-- go out and buy a bunch of ducks that meet the test and horses that meet the test and we'll have a real life illustration. But-- I do not bring any insight into that one. Bill probably knows the answer already.

CHARLIE MUNGER: My attitude is that Warren knows more about it than I do.

BECKY QUICK: Hey, I'll ask you guys a question that I was surprised didn't come up this weekend. You all are voracious readers. And-- generally, somebody will ask you guys at the-- at the annual meeting what you've been reading recently. Let me just toss that out. Bill, you constantly have a list of what you've been reading. Have-- what-- makes it this year?

BILL GATES: Well, the-- top would be this new Hans Rosling book called Factfulness. It's very readable. Talks about how the world has changed and Hans shares how he had some misperceptions that he didn't see all the progress. And I-- talks to you about how to-- how to think about-- news and where we're going. So that's-- brilliant.

BECKY QUICK: Charlie?

CHARLIE MUNGER: Well, I read a book by a Chinese-- economist who had worked in the World Bank. And his general idea was that we had learned better how to help a poor nation develop. There was a lot of stupidity in the early days when we'd give some very poor and backward nation a big steel plant. Of course, it wouldn't work. And-- I think this economist was right. So I think generally speaking-- there's a lot that's right in the world.

BECKY QUICK: Uh-huh. Warren, have you been reading anything lately that's caught your attention?

WARREN BUFFETT: Well-- yeah-- but I- narrow it down a little bit more. I've already recommended chapter eight, you know, of The Intelligent Investor, and-- which stays up there among the top sellers-- for years. But so in that same spirit, I would re---- recommend reading chapter four of-- Steven Pinker's new-- book. And-- there're some very interesting reasons to be optimistic ab-- about the world in-- in-- in-- in that chapter.

BECKY QUICK: What does it focus in on?

WARREN BUFFETT: Yeah. Tell 'em the name of the book, Bill--

BILL GATES: It's called Progressive Phobias, the chapter name. And the book is called Enlightenment Now. It's another book like the Rosling book that talks about the progress we've made and how we could learn from the

places we've made even faster progress. It came out the work he did in his previous book-- Better Angels of our Nature, where he saw that violence was going down. And now he's looked at a lot of other things-- like workplace safety and happiness. And-- it's-- a more serious read-- than a lot of books, but really fantastic.

BECKY QUICK: We-- we've-- spoken a little bit with Charlie and Warren about what they've learned from each other. I'll ask each of you as we're wrapping up this hour what you've learned from Berkshire-- broadly. As board members, as-- people who travel together, who work together, who have fun together and spend time together. Just what it's meant over the years. Bill, I'll go ahead and start with you because you haven't gotten to weigh in on this yet. Something you've learned from-- Charlie and or Warren and-- the-- board at large.

BILL GATES: Well, from Warren-- the whole approach to thinking logically-- thinking long-term. It's been an incredible education. And totally shaped how-- I think about things. The fact that then there's this incredible set of people including Charlie and the managers that I've gotten exposed to-- we have in our second board meeting, a bunch of man-- the managers come in and talk about their businesses. And it's one of the most fun times of the year to hear about very different businesses and the competitive dynamics and how technology affects them. And how a system where you have these great long term thinkers with very high integrity who are dealing with these-- challenges. So, you know, my whole business education-- started the day I met Warren. And-- the Berkshire team has-- helped keep it going at full speed.

BECKY QUICK: Warren?

WARREN BUFFETT: Well, it's very important in life to associate with people that are better than you are. And it's the most important decision -- you will go in the direction of the people that you associate with. And you'll get ideas from them and you'll see how their behavior works and all of that sort of thing. And the most important decision usually in that respect-- is your spouse. But it's enormously important among your friends to have people that you admire as well as have a lot of fun with. And you will move in the

direction of their better behavior. And-- -- with both-- Bill and Charlie, I-- I've learned a lot, I've had an enormous amount of fun. But I pick up on their ideas. And-- that's been a very good thing.

BECKY QUICK: Charlie, I'd like to have you have the last word today on that topic.

CHARLIE MUNGER: Well, I said to the Berkshire managers this year as I looked out over the crowd, "The nice thing about this room is that we would all feel pretty safe just delivering our children to almost anybody selected at random from the group." You couldn't say that at most places. I should say there's a horserace for power and prominence or something or other. So we have a very admirable bunch of people. And we have less bureaucracy than almost anybody. And so that is not a small achievement. I don't think of a single-- I can't think of a single company of our size that has less bureaucracy than we do.

BECKY QUICK: Did you set out to do that at the beginning?

CHARLIE MUNGER: Well, we always hated bureaucracy. And so I would say, in a sense, yes. Wouldn't you say, Warren?

WARREN BUFFETT: Yeah, absolutely. No, we both--

CHARLIE MUNGER: We both hated it.

WARREN BUFFETT: And we had the ability-- or-- you know, were fortunate. We could create the company, to some extent, that we wanted to have. And I've always said it was crazy to be a painter painting something at the end you didn't-- it's not the painting you wanted to have. And Berkshire is a sort of painting. And we have ha-- we haven't walked into some huge organization, had to claw through the progressions and the politics that went. And we have created what we wanted to create.

BECKY QUICK: Warren--

CHARLIE MUNGER: I don't think we could fix a big bureaucracy.

WARREN BUFFETT: No, we couldn't. No.

CHARLIE MUNGER: We-- could create something that didn't become a big bureaucracy. But we-- couldn't fix one--

WARREN BUFFETT: No.

CHARLIE MUNGER: --that's already bureaucratic.

BECKY QUICK: Charlie, Warren, Bill, I want to thank all three of you for your time today. We truly appreciate it. Folks, that does it for us today. Make sure you join us tomorrow. Right now, it's time for Squawk on the Street.

6. CHAPTER 4: Mark Zuckerberg

Mark Zuckerberg

Cofounder, Chairman and CEO, Facebook

Real Time Net Worth — as of 6/10/18 - \$72.2 B

2018 Billionaires Net Worth — as of 3/6/18 - \$71 B

- Mark Zuckerberg, Facebook's CEO, has seen his net worth soar as the social network's stock price has skyrocketed.
- In April 2018, he testified before Congress after it was revealed that Facebook shared users' data with political consulting firm Cambridge Analytica.
- Zuckerberg started Facebook at Harvard in 2004 at the age of 19 for students to match names with faces in class.
- He took Facebook public in May 2012 and still owns nearly 17% of the stock.

Zuckerberg and his wife, Priscilla Chan, have pledged to give away 99% of their Facebook stake over their lifetimes.

Mark Zuckerberg Advice

“If you want to build something great, you should focus on what the change is that you want to make in the world.”

“Entrepreneurship is about creating change, not just companies.”

“In a world that’s changing really quickly, the only strategy that is guaranteed to fail is not taking risks.”

“Some people dream of success...while others wake up and work hard at it.”

“People think innovation is just having a good idea but a lot of it is just moving quickly and trying a lot of things.”

“You are better off trying something and having it not work and learning from that than not doing anything at all.”

“The companies that work are the ones that people really care about and have a vision for the world so do something you like.”

“Building a mission and building a business go hand-in-hand. It is true that the primary thing that makes me excited about what we’re doing is the mission, but I also think, from the very beginning, we’ve had this healthy understanding which is that we need to do both.”

“Games is probably the biggest industry today that has gone really social, right. I mean, the incumbent game companies are really being disrupted and are quickly trying to become social. And you have companies like Zynga.”

“It’s really easy to have a nice philosophy about openness, but moving the world in that direction is a different thing. It requires both understanding where you want to go and being pragmatic about getting there.”

“The basis of our partnership strategy and our partnership approach: We build the social technology. They provide the music.”

“The biggest risk is not taking any risk. In a world that’s changing really quickly, the only strategy that is guaranteed to fail is risks. “What really motivates people at Facebook is building stuff that they’re proud of.”

“If you’re always under the pressure of real identity, I think that is somewhat of a burden.”

“This is a perverse thing, personally, but I would rather be in a cycle where people are underestimating us. It gives us latitude to go out and make big bets that excite and amaze people.”

“Books allow you to fully explore a topic and immerse yourself in a deeper way than most media today.”

“In terms of doing work and in terms of learning and evolving as a person, you just grow more when you get people’s perspectives. I really try and live the mission of the company and keep everything else in my life extremely simple.”

“I think that people just have this core desire to express who they are. And I think that’s always existed.”

“It is important for young entrepreneurs to be adequately self-aware to know what they do not know.”

“The most important thing that entrepreneurs should do is pick something they care about, work on it, but don’t actually commit to turning it into a company until it actually works.”

“When you give everyone a voice and give people power, the system usually ends up in a really good place. So, what we view our role as, is giving people that power.”

“The question isn’t ‘what do we want to know about people?’, It’s, ‘What do people want to tell about themselves?’”

“I think a simple rule of business is, if you do things that are easier first, then you can actually make a lot of progress.”

“I started the site when I was 19. I didn’t know much about business back then.”

“People can be really smart or have skills that are directly applicable, but if they don’t really believe in it, then they are not going to really work hard.”

“The question I ask myself like almost every day is, ‘Am I doing the most important thing I could be doing?’”

“Find that thing you are super passionate about.”

“Simply put: we don’t build services to make money; we make money to build better services.”

“Don’t let anyone tell you to change who you are.”

“It takes courage to choose hope over fear.”

“If you just work on stuff that you like and you’re passionate about, you don’t have to have a master plan with how things will play out.”

“Instead of building walls, we can help build bridges.”

“So many businesses get worried about looking like they might make a mistake, they become afraid to take any risk. Companies are set up so that people judge each other on failure. “People don’t care about what you say, they care about what you build.”

7. CHAPTER 5: Carlos Slim Helu

Carlos Slim Helu & family

Honorary Chairman, America Movil SAB de CV (ADR)

Real Time Net Worth	— as of 6/10/18	-	\$59.3 B
2018 Billionaires Net Worth	— as of 3/6/18	-	\$67.1 B

- Mexico's richest man, Carlos Slim Helu and his family control America Movil, Latin America's biggest mobile telecom firm.
- With foreign telecom partners, Slim bought a stake in Telmex, Mexico's only phone company, in 1990. Telmex is now part of America Movil.
- He also owns stakes in Mexican construction, consumer goods, mining and real estate companies and 17% of The New York Times.

His son-in-law Fernando Romero designed the Soumaya Museum in Mexico City, home to Slim's extensive, eclectic art collection.

Carlos Slim Helu Advice

“I think entrepreneurs... can think long term and find solutions and go in the way for long term solutions and not short-term.”

“In this new wave of technology, you can't do it all yourself, you have to form alliances.”

“It's very important for leaders in business to work to create human capital, a team that has the same sense of purpose and alignment.”

“With good perspective of history we can have a better understanding of the past and present, and thus a clear vision of the future.”

“The combination of non-profit organizations like the foundations and profit businesses can work together in some areas.”

“Most people try to make a better world for our children when what they should be doing is making better children for our world.”

“Choose the right employees and then set them loose.”

“I learned from my father that you continue to invest and reinvest in your business – including during crises.”

“Anyone who is not investing now is missing a tremendous opportunity.”

“In business, you invest when things are not in good shape. When you invest at these times, you take a better position than your competitors. When there is a recession and your competition does not invest, they are giving you the advantage.”

“You cannot live without doing something.”

“Technology is going to transform people’s lives and society everywhere in the world. I spend most of my time studying new technologies. My main task is to understand what’s going on and try to see where we can fit in.”

“All businesses make mistakes. The trick is to avoid large ones.”

“If you are in business, you are not enjoying. You are working.”

“People need to feel very good about their achievements. They get pride from what they are doing.”

“Think of an athlete. He may be very good in his own house, but not as good as his neighbors. You have to go beyond your home. You have to go worldwide.”

“The key is the Internet. The United States is by far the most advanced country in this new digital culture, so we have to be there. The Internet is the heart of this new civilization, and telecommunications are the nervous system, or circulatory system.”

“Do not allow negative feelings and emotions to control your mind. Emotional harm does not come from others; it is conceived and developed within ourselves.”

“What is most valuable in life does not cost anything but is very precious.”

“You should have more time for you during all of your life – not when you’re 65 and retired.”

“Courage taught me no matter how bad a crisis gets... any sound investment will eventually pay off.”

“The truth is, you leave this world with nothing. What you are is a temporary administrator, and you must administer well... the wealth in your care, and generate more. The surplus can be used to do many things for people.”

“Money is not a goal. The goal is to make companies grow, develop, be competitive, be in different areas, be efficient to have a great human team inside the company.”

“Competition makes you better, always, always makes you better, even if the competitor wins.”

“The better off you are, the more responsibility you have for helping others. Just as it's important to run companies well, with a close eye to the bottom line, you have to use your entrepreneurial experience to make corporate philanthropy effective.”

“When you live for others' opinions, you are dead. I don't want to live thinking about how I'll be remembered.”

“You cannot have people in your organization who are pessimists. They take you to mediocrity.”

“When you give, do not expect to receive, Fragrance clings to the hand that gives the rose.”

“Live the present intensely and fully, do not let the past be a burden, and let the future be an incentive.”

“Mistakes are normal and human. Make them small, accept them, correct them, and forget them.”

“The people inside the group need to have some conditions to follow. We have a philosophy of leadership, ideas, and concepts. They need to share that.”

“Focus on essentials and try not to get distracted and bogged down by things that don’t add value to the bottom line.”

“It’s not a question of arriving [at a new company] and putting in a whole new administration but instead, arriving and ‘compacting’ things as much as possible, reducing management layers.”

“When we face our problems, they disappear. So learn from failure and let success be the silent incentive.”

“Success is not about doing things well or even very well, or being acknowledged by others. It is not an external opinion, but rather an internal status. It is the harmony between the soul and your emotions, which requires love, family, friendship, authenticity and integrity.”

“If you’re in business, you need to understand the environment. You need to have a vision of the future, and you need to know the past.”

“Profitability is coming from productivity, efficiency, management, austerity, and the way to manage the business.”

“I think one of the big errors people are making right now is thinking that old-style businesses will be obsolete, when actually they will be an important part of this new civilization.”

“Work well done is not only a responsibility to yourselves and society; it is also an emotional need.”

“All times are good time for those who know how to work and have the tools to do so.”

Carlos Slim Helu Exclusive Interview

Was your goal to make money? Is that your goal?

Carlos Slim Helu: I think it's not a goal. Money is not a goal. The goal is to make companies grow, develop, be competitive, be in different areas, be efficient to have a great human team inside the company. Look for human development of the people of the companies because you cannot do anything without human capital, without your human team.

We are talking about how many people are with us but there are managers that are critical that began working in the company and grew with the company and develop to achieve success being in high level management position. And now the goal is well by one side, I think the wealth should be reinvested to create more wealth.

The fruit of wealth is income and it is important to develop the distribution of income. The distribution of income comes mainly by employment and second, by the money that goes to the government.

Carlos Slim Helu owns one of the oldest hotels in Mexico, Hotel Genève but the empire is in the telecommunications company; Telmex, which he acquired in 1990 when Mexico began privatizing its national industries.

A decade later, he spun off the cell phone business, American mobile and it's one of the largest companies in all of Latin America. He also owns Sunborn, Mexico's major retail outlet and biggest restaurant chain. His interest includes one of Mexico's most important banks, airline, a mining company, hotels, construction, insurance companies, a bottling company, cigarette manufacturer, much real estate and on and on and on.

Are you always looking to acquire?

Carlos Slim Helu: In 1965 when I began, I had a soft drink bottling company. We are not in the bottling business anymore. We sold the tobacco business also to our partners. We are concentrating because during these 45 years and depending on the circumstances we were involved; we have the possibilities to buy some business. With time, we thought we were focusing a little more

on what we thought had more important potential and development and needed more investments and management.

Business Lesson: Concentrate on your core competence. Be focused

Carlos Slim Helu: In '82, there was a big crisis in Mexico and that meant that nobody was investing. And we invested in paper; we invested in tyres for cars, we invested in auto parts and aluminum and copper combustion. Actually we were focusing. We sold a corporation, we sold a tile business we bought in '82 also; both of them. We were focusing in telecommunication, financing and mining, retail.

Business Lesson: Get in when others are getting out

Business Lesson: Always be prepared to make your big move

Was there early in life, a big event that happened to you that turned you from a millionaire to billionaire? Was there a major occurrence?

Carlos Slim Helu: I think work, investments and reinvestments. My father used to say that the money that gets out of a company evaporates. That means he was thinking in terms of investments and reinvestment and reinvestment. That is one of the things we do. Other things that we do are in good times, we maintain our winning streak.

When we do profitable business, we don't get crazy; putting expenses all around or making fancy things. Then, we didn't have corporate offices until now. We used to have them in the factories. The offices of the company were in the factories, not in another corporate building. I think it's the way it happened.

Business Lesson: Watch your expenses

Business Lesson: Reinvest, Reinvest, Reinvest

8. CHAPTER 6: Charles Koch

Charles Koch

CEO, Koch Industries

Real Time Net Worth — as of 6/10/18 - \$52.4 B

2018 Billionaires Net Worth — as of 3/6/18 - \$60 B

- Charles Koch has been chairman and CEO of Koch Industries, America's second largest private company, since 1967.
- The conglomerate has \$100 billion in revenues from businesses including pipelines, chemicals, Dixie cups, Brawny paper towels and Stainmaster carpets.
- His father, Fred Koch, started the business in 1940 and improved a method of refining heavy oil into gasoline.
- The Kansas native owns a 42% stake in the firm, as does his brother, David; they bought their two other brothers' shares in 1983.
- Koch has funded a number of think tanks, including the libertarian Cato Institute, the Heritage Foundation and the American Enterprise Institute.

Charles Koch Advice

“Successful companies create value by providing products or services their customer’s value more highly than available alternatives. They do this while consuming fewer resources, leaving more resources available to satisfy other needs in society. Value creation involves making people's lives better. It is contributing to prosperity in society.”

“Our vision controls the way we think and, therefore, the way we act the vision we have of our jobs determines what we do and the opportunities we see or don't see.”

“Embrace change. Envision what could be, challenge the status quo, and drive creative destruction.”

“To do meaningful work is to contribute - to create value in society.”

“Far too many businesses have been all too eager to lobby for maintaining and increasing subsidies and mandates paid by taxpayers and consumers.”

“The role of business is to provide products and services that make people’s lives better - while using fewer resources - and to act lawfully and with integrity.”

“We needed to be uncompromising with our workforce, to expect 100 percent of our employees to comply 100 percent of the time with complex and ever-changing government mandates. Striving to comply with every law does not mean agreeing with every law. But, even when faced with laws we think are counter-productive, we must first comply. Only then, from a credible position, can we enter into a dialogue with regulatory agencies to demonstrate alternatives that are more beneficial. If these efforts fail, we can then join with others in using education and/or political efforts to change the law.”

“Being captive to quarterly earnings isn't consistent with long-term value creation. This pressure and the short term focus of equity markets make it difficult for a public company to invest for long-term success, and tend to force company leaders to sacrifice long-term results to protect current earnings.”

“Many businesses with unpopular products or inefficient production find it much easier to curry the favor of a few influential politicians or a government agency than to compete in the open market.”

“In general, an asset should be sold when it has greater value to a buyer. This happens when a buyer has a complimentary business or capability that would enable them to do more with that business. Many businesses we have exited were not failures, but had simply reached a point in their life cycle where they no longer provided a core capability or served as a platform for growth.”

“We strive to hire and retain only those who embrace our MBM® Guiding Principles, which encompass integrity, compliance, value creation, Principled Entrepreneurship, customer focus, knowledge, change, humility, respect and fulfillment.”

“I studied what principles under-laid peace and prosperity and concluded the only way to achieve societal well-being was through a system of economic freedom.”

“No centralized government, no matter how big, how smart or how powerful, can effectively and efficiently control much of society in a beneficial way. On the contrary, big governments are inherently inefficient and harmful.”

“If there is wrong, you don't say we have to get rid of it gradually. If injustice exists, you need to eliminate it immediately.”

“When everyone gets something for nothing, soon no one will have anything, because no one will be producing anything.”

“Citizens who over-rely on their government to do everything not only become dependent on their government, they end up having to do whatever the government demands. In the meantime, their initiative and self-respect are destroyed.”

“Repeatedly asking for government help undermines the foundations of society by destroying initiative and responsibility. It is also a fatal blow to efficiency and corrupts the political process.”

“We try to evaluate how much value an employee is creating here and reward them accordingly.”

“Far too many businesses have been all too eager to lobby for maintaining and increasing subsidies and mandates paid by taxpayers and consumers.”

“I believe my business and non-profit investments are much more beneficial to societal well-being than sending more money to Washington.”

“I want my legacy to be greater freedom, greater prosperity and a better way of life for my family, our employees and all Americans. And I wish the same for every nation on earth.”

“In business, real jobs profitably produce goods and services that people value more highly than their alternatives. Subsidizing inefficient jobs is costly, wastes resources, and weakens our economy.”

“Laying the groundwork for smaller, smarter government, especially at the federal level, is going to be tough. But it is essential for getting us back on the path to long-term prosperity.”

“Relentlessly strive to come up with new and better products and produce them more efficiently than the alternatives.”

“Successful companies create value by providing products or services their customer’s value more highly than available alternatives. They do this while consuming fewer resources, leaving more resources available to satisfy other needs in society. Value creation involves making people’s lives better. It is contributing to prosperity in society.”

“The successful companies try to keep the new entrants down. Now that’s great for a company like ours. We make more money that way because we have less competition and less innovation. But for the country as a whole, it’s horrible.”

“You pass a program and get people dependent on it, making it brutal to get rid of. The key is not letting it get started.”

“The billionaire Charles Koch goes over what it takes to fight in the political arena. As a controversial figure in business and politics, this industrialist and conservative advocate highlights his philosophy and reasoning behind influencing elections.”

Carlos Slim Helu Exclusive Interview

Full interview: Charles Koch

By Kai Ryssdal

We went to Koch Industries headquarters last week to spend about an hour with co-owner, chairman and CEO Charles Koch. Koch and his brother David, both billionaires, are also known as dedicated right-wing political fundraisers.

Ryssdal: Charles Koch, welcome to the program.

Koch: Thanks, thanks for having me.

Ryssdal: There you are, Boston, Massachusetts, 1961. Couple of graduate degrees from MIT, and you come back to Wichita, Kansas. Why?

Koch: Well my father had, uh ... I was working for a consulting firm back there, which was then one of the leading consulting firms, Arthur D. Little, and I was learning a lot, and it was a great place to be when you're single. All the girl's schools there and they had jazz bars. I mean it was terrific. I loved it. Learning a lot, doing consulting for all sorts of big companies -- process development, product development, management services. And so my father starts calling me, urging me to come back to Wichita, and I remember what it was like growing up under him. Like, starting at age six he had me work in virtually all my spare time, and I don't mean doing easy stuff. Like, started out at age six digging dandelions at, you know, 100 degree temperature, and I'm thinking, "Why did my father hate me, and all my friend's fathers love them?" Because they're out swimming, and having a great time, and here I am digging that. And you, because you have to dig down. If you pull them up the roots will stay there, and they come right back.

Ryssdal: That's right.

Koch: So I'm out there digging, and then I soon graduate to bailing hay, shoveling out stalls, milking cows, digging ditches, all this other stuff, and that continued until I started working other places. And -

Ryssdal: So you say he was tough, your old man was?

Koch: So he was tough, yeah. His philosophy was this. He said, "I don't want my sons to be country club bums. So I'm going to make them work." Now, I was a little difficult. I was independent, kind of a free spirit, so I would try to find ways around this, and years later I ask him, I said, "Pop, why you were so much tougher on me than my younger brothers?" He said, "Son, you plum wore me out. Which I resemble that, but thankfully he stayed with it because he taught me work ethic. And he was tough. Well, and one of his favorite sayings, being Dutch, is, "You can tell the Dutch, but you can't tell 'em much." So he had a strong will, but he also had great integrity, great humility, treated people with dignity and respect, and he had a tremendous thirst for knowledge. And so I absorbed some of that, not probably to his standard, over, over time.

Ryssdal: Here you are almost 80 years old, right? First of November?

Koch: Yeah.

Ryssdal: You're working in the company your father founded, or, or built. His picture's over there, big portrait?

Koch: That's right, absolutely.

Ryssdal: There's a bust of him out in the hallway, right?

Koch: Yeah, absolutely, and there's the letter from him I referred to around the corner.

Ryssdal: Tell us about that letter, because that says a lot about your dad, and, and about you.

Koch: Yeah, well that was, that was terrific. On his death, I opened his safety deposit box, and I found that. He wrote that letter in 1936 when he was 36 and I was one. There were just two of us alive then, because I have an older brother who's two years older than I am. And he said in that, in that letter that he had, given us each an insurance policy to pay for our education, and we could either use that to develop and, and learn to make a contribution, or we could squander it. And if we squandered it, it'd ruin our lives, and we would never experience what he called, "The glorious feeling of accomplishment."

Ryssdal: Still a factor in your life then, your dad?

Koch: Well yeah, because he taught me the basic values that, that guide our company, guide everything I do.

Ryssdal: He takes a company and builds it from essentially nothing to 21 million dollars, in-

Koch: Well he didn't really found the company. It was founded ---

Ryssdal: No, but he built it.

Koch: And he was smart. He said when they tried to hire him to be head of operations and build the plant, it was-

Ryssdal: This, this company called Wood River, right?

Koch: Wood River Oil-

Ryssdal: Yeah.

Koch: ... And refining, to build a very small refinery. It was competitive then, but by today's standards it was very small, outside of St. Louis in Wood River, Illinois. And he said, "OK, I'll do it, but I want to have a stock interest."

Koch: "I want to be a partner." So he bought 23 percent interest in the plant for \$230,000 dollars.

Ryssdal: He takes Wood River, builds it from a real small company to \$21 million dollars when you come back in 1961.

Koch: Right.

Ryssdal: Right? You then take over after his death, and you build it from \$20 something million to \$100 billion today, right? Do I have the numbers basically right?

Koch: Well I'm not going to say what the, that's what the press says.

Ryssdal: Fair enough, but generally accepted figure, how about that?

Koch: Yeah, OK.

Ryssdal: Right? Who's accomplishment was more impressive, yours or your dad's?

Koch: I think they were different. I mean, and what's fortunate is whatever our capabilities or our aptitudes were, they were appropriate for the time and task. My father was an inventor. He was a great engineer, a much better engineer than I ever was, and one of my younger brothers, David, is a much better engineer than I am. But I discovered at an early age that I had an aptitude for math, and logic, and philosophy. And a matter of fact, I was (laughs). I'll never forget, these are things that you would think you would forget. In the third grade they were putting math problems, I was going-

Ryssdal: Mm-hm (affirmative)

Koch: ... to public school here. They were putting math problems on the board, and I said to myself, "Why are they doing that? That's obvious," 'cause that's just the way my mind worked. Now nothing else was obvious. Everything else I had to really work at, but math came naturally to me. And so that's the way I've been ever since, and that's why I went to MIT. And although I studied engineering there, got three engineering degrees, my main interest was in math, and science, the philosophy of science, the scientific method. And that's what we've applied here and has been critical

to our building the company over the years. So I would say we were both fortunate, and we had the particular aptitudes to build on whatever opportunity was there for us.

Ryssdal: You have this company today, its 100,000 employees, plus or minus?

Koch: Yes.

Ryssdal: 60 different companies.

Ryssdal: And here you're sitting in Wichita, Kansas. What do you do every day, running this company? Because it's not like you can possibly know everything that's going on.

Koch: No, absolutely. I try to build on our management philosophy. I try to understand what the threats and opportunities are for us. Uh, I try to make sure that we're driving innovation and creative destruction hard enough so we're not blindsided, and that our attitude is to, in starting any initiative, any business, is to focus on how we can create value for others, rather than how we maximize profit, because you can make money focusing on, "How do I maximize profit?" To make a quick buck, but over time, if you're not creating value for others, customers, society, isn't going to let you be around. So that's my focus on these, on the philosophy principles, and then I get involved in the deals, in the opportunities. Not like I used to. I used to get involved in-

Koch: ... every detail, but it, were of a size and I'm of an age that I like to apply whatever my aptitude and passion is, which is on the things, the aspects that I mentioned.

Ryssdal: The book is called "Good Profit," in which you talk about entrepreneurship that is principled. How do you do that in this economy today? Because as you know, it's rough out there.

Koch: Well, I mean it's not easy, because the economy is so riddled with corporate welfare and anti-competitive regulations, anti-innovation

regulations. Regulations that are destroying opportunities for the disadvantaged, which is creating this two-tiered system we're headed for which has which is destroying opportunities for the disadvantaged and creating welfare for the wealthy. So to the best we can, what we do is focus on creating value for others, and how do we do that? We do it by trying to produce products and services that our customers will value more than their alternatives, and not just their alternatives today, but what the alternatives will be in the future. We try to more efficiently use resources than our competitors, and constantly improve in that, and we try to do the best job we can in creating a safe environment, and environmental excellence, and constantly improve at that.

Ryssdal: I need to back you up to that whole corporate welfare, and the state of society today, 'cause that's in essence what you're talking about with people who are advantaged and disadvantaged. It's not possible that you don't see that Koch Industries has benefited from some of those policies that the government has in place today?

Koch: Oh, terrific. I mean you can't help, I mean you're hurt by some, and benefit others. I mean look at all the ways, all the forms of corporate welfare. I mean there are cash subsidies, there are loan guarantees, there are import tariffs, and there are regulations on your competitors-

Ryssdal: Right, and my point is that Koch Industries benefits from all of those.

Koch: Well, I mean some cases we benefit, some we're hurt, but we're opposed to all of them whether we benefit or whether we're hurt by them.

Ryssdal: Full stop?

Koch: All of 'em. We oppose all of 'em.

Ryssdal: Does government do any good in the economy?

Koch: Yeah, the government in my definition, is the agency that has the legal monopoly of force. And you say, "Well God, that's bad." No, we need force to protect the US from attack, to protect people's person and property, and

in certain other things when force works better than voluntary cooperation and competition. And so that to me is the test, but the government has gone way over in using force, and we see that in the criminal justice system where we have 5% of the world population and 25% of the world's prison population. Now obviously we're using a lot more force than other countries we look down on, and so that's why we're working at that. Then using force, using regulations to keep the disadvantaged from starting a small business or even getting a job.

And one of the biggest of that is occupational life insurance, where hundreds of occupations throughout the economy, depending on the state, and the locale, and the city there are these various hurdles that people have to jump to-

Ryssdal: You're, you're talking about florists, and hairdressers, and-

Koch: I'm talking, yeah!

Ryssdal: ... bartenders, and all that?

Ryssdal: OK.

Koch: There, there are hundreds of these.

Ryssdal: Fine, fair enough, and we can talk about that later if you want. Let me ask you though, whether you understand that people look at you and Koch Industries and say, "Well of course he wants government out of the way, because he's ginormous, and he can steam roll us and do whatever he wants."

Koch: Well if that's so, why are we about the only large company that's taking this position? Most companies want free enterprise in general because that produces better goods and services and makes people's lives better, but they don't want it in their business. They want protection from competition, they want subsidies, they want the government to pick winners and losers, and they want to be picked as winners, and that's what we're opposing, and that's what drives my whole efforts in policy, and in the political arena.

Ryssdal: So before we move on, I want to make sure I understand. If all government support for oil and gas industries, which is what this company was built on, or all-

Koch: Well not totally, but in part.

Ryssdal: Well, in part, OK.

Koch: That's how it started.

Ryssdal: That, exactly. So support for oil and gas industries, support for lumber, and timber, and paper products, which this company now owns with Georgia Pacific. If that all went away tomorrow, you'd be all right?

Koch: Absolutely. We oppose all of it. Because going back to what I said, our basic philosophy is to succeed long term. It's to dedicate yourself to creating value for others, to helping other people improve their lives, and that isn't altruistic. That's the way we believe we all do better. Because for business to survive over a long period, it needs to be contributing to society and people's well-being. Otherwise, who's going to want it? Otherwise you end up like Enron or some of these other companies.

Ryssdal: I wonder whether your definition of society's well-being isn't necessarily everybody's definition of society's well-being. You've got your view here, from this-

Ryssdal: ... from this very successful large company that you run.

Koch: But that's not where my view came from, from the company. The way I run the company came from my study of across all relevant disciplines, from all different perspective, over year, on how people can best live and work together to make their lives better.

Ryssdal: You have a management philosophy you lay out in this book called "Market Based Management."

Koch: Correct.

Ryssdal: Which you credit almost entirely for the success of this company and the growth, right?

Koch: Well I wouldn't say entirely, but it's been a key part.

Ryssdal: Fair enough. I wonder, as you look at those principles that you lay out in this book where risk tolerance falls on your spectrum of things you consider. Because you started in a very risky business, oil and gas.

Koch: By the time I came, our main business was crude oil gathering-

Koch: ... in southern Oklahoma. Besides renting this equipment company, my main objective was to build that up, and we built that from being in southern Oklahoma to being the largest crude oil gatherer in the US and Canada by applying many of these principles. But that's, I mean that's a key, that's a great question. My philosophy, one of the biggest enemies of future success is past success, because you become complacent, you become risk averse, and that's one of the things we try to drive here, and this is fundamental to this philosophy, and that's in this component change, and also in value creation. That we need to drive creative destruction, not just incremental innovations, but innovations that will change the whole nature of the business. And we're working on two now. One is, or a whole series of them in biotechnology, and another in making smart products and processes. Because we see these technologies coming to the point that they're going to transform industries, and we want to be the ones leading the transformation rather than be pushed aside because of.

Ryssdal: Is it fair to say that you run this place a little bit like a startup? You talk a lot about creative destruction, and being aggressive, and innovating, and not being afraid of failure. A little startup mentality?

Koch: Well yeah, I mean, and fear of failure.

Koch: That if we're complacent ... That, that the only way to succeed over time is not only create more values for your customers and in society than others today, but in the future. So we have to innovate and improve faster

than not only existing competitors, but new entries. People with new ways of doing things. So we're leading in innovation.

Ryssdal: Is it true you still live in the same house you built in 1973?

Koch: Yeah, same house. It's great. It's much bigger than I want it, but-

Ryssdal: (laughter)

Koch: ... my wife-

Ryssdal: You lost that argument?

Koch: My wife took charge. Matter of fact, when we had dug the foundation and we were having terrible problems, the whole thing-

Ryssdal: This is '73. Our oil embargo, right?

Koch: Yeah. Oil embargo, all the prices markets turned upside down, we had price controls, I mean it was, I thought we were going to go broke. And I remember sitting there with my legs hanging over into the hole in the ground, saying, "Honey, we got the money to fill this thing back up, but I don't think we've got the money to finish it," 'cause, I thought we had a good shot of going broke with the way things were going. But we got through it, but that's, as Lenin said, "You learn through struggle." And so-

Ryssdal: Hold on, wait, was that Charles Koch just quoting Lenin? Did that just happen?

Koch: Oh yeah, I quote all sorts of people.

Ryssdal: Wow. That's pretty good. You talk a lot in this book about 12% growth every year, and doubling your profits.

Koch: Not every year, over time.

Ryssdal: Sorry. 12% growth, you're right. 12% growth over time.

Koch: Because that is a trap. If we see companies that-

Ryssdal: Right.

Koch: ... "Boy, we want regular growth," the only way they can do that is cook the books, because nobody's going to be able to do that.

Ryssdal: Fair enough, let me rephrase the question. You talk a lot in this book about doubling profits in this company every six years.

Ryssdal: Right?

Koch: Average over time, yeah.

Ryssdal: Growing, growing, and growing. Why do you have to grow? Why do you have to get bigger?

Koch: Well, because you either go forward or you go backward, and that goes, the same philosophy as why we put so much weight not just on incremental innovation, but on creative destruction. Changing the whole nature of industries, bringing in new products that will radically c- I mean for example, we're investing tremendously in a number of, as I said, in a number of different aspects of biotechnology, and one is to make chemicals through biotechnology rather than through chemical processes. And in these, you consume CO₂ rather than produce CO₂ as a byproduct, and we believe from the laboratory, and some of these chemicals we can make, at half the cost, in a much more environmentally friendly way. And then we have a number of others. I won't bore you with all of them, but ...

Ryssdal: I wonder what you think of the current startup culture in American business today, with Silicon Valley and things going on in the sort of grass roots of this economy. Do you see yourself in there a little bit?

Koch: Well, we try to be, absolutely. I think innovations that will make people lives better like with Uber, which is great, but-

Ryssdal: Have you ever taken an Uber?

Koch: No.

Ryssdal: Oh. You ought to try it. It works, sometimes it works not so well sometimes.

Koch: Yeah, well yeah, no, nothing's perfect, but it seems to work better than regular taxi cabs because it's gaining, and all the taxi cab owners are trying to fight them and shut them down, so that's-

Ryssdal: Is that your measure of success then? If the established order is fighting you, you're doing something right?

Koch: Well we would hope not, but that's when you bring in a new innovation that threatens their business, that's what they try to do. They try to get government to shut you down, and that's one of the thing that's, I think's crippling the country and corrupting the business community. For example, because of these kind of initiatives, the US has slipped to 46th in the world in ease of starting a business. It used to be one of the easiest, and it's because of this, of these innovations threatening people.

And also, I think is also an indication of that, is the median income in this country has dropped over the last eight years, and I'm not blaming any party. Both parties are guilty of this. Like I say, what I believe is that both parties are taking us down the road to serfdom, creating this two-tiered system and heading us toward a financial crisis but the Democrats are doing it at 100 miles an hour, and the Republicans are only doing it 70 miles an hour.

Ryssdal: OK, so what's the difference? Arbitrage that for me, that 30 miles an hour difference. What's in there that makes it different?

Koch: Well I think the Republicans are not, they're almost as big as, on corporate welfare, that would be very close. Each one, like a congressman has a plant in his or her district who's going to be obsolete, so they try to get subsidies or protections to keep it going. And so they're both pretty much that way, but on some issues, on free trade and some of these things, the Republicans are somewhat better.

Ryssdal: It's worth a note here that you have written not all that long ago, you know, 20, 30 years ago, "If this is our only hope," you said this of the GOP, "If this is our only hope, we're doomed."

Koch: That's right, and that's why-

Ryssdal: Still believe that?

Koch: Yeah. That's why, although our seminar group contributes quite a bit political, I-

Ryssdal: So these are the seminars you're on twice a year for-

Koch: Twice a year, but my-

Ryssdal: ... for largely Republican donors.

Koch: But my personal money, almost all of it goes into research, and education, criminal justice reform, opposing poverty creating regulations, supplementing the public education system so disadvantaged kids can learn the skills and values required for success that I had the benefit, because my parents taught me those. And I didn't want to learn 'em, but they made me learn them, and we want to give every kid that opportunity.

Ryssdal: We should be clear here, though, that your personal money is not the same as the money that the Koch brothers, and I'm saying this with air quotes, spend on politics in America today?

Koch: Yeah, and that's, see, the overwhelming majority of that is what people who attend our seminars want to give to. They have I'd say our typical seminar participant has a lot more faith in politicians getting us, reversing the trajectory of this country toward this two-tiered system-

Ryssdal: Than, than you do?

Koch: ... than we do.

Ryssdal: OK, so-

Koch: So I give some, and it's still a lot of money, but as a percentage of what I give, it's a very small percent.

Ryssdal: Fair enough, but why do you spend so much money in politics if you fundamentally don't believe that the mechanism is working? Because I will tell you, and as you know, you are, to those who disagree with you in politics today, you are pretty much Darth Vader.

Koch: Oh yeah.

Koch: That's why I get all the death threats.

Ryssdal: No I know you do, I know you do, and that's a serious issue, but you have become the symbol of the political right in this country, the secretive political right.

Koch: Right, and we're trying not to ... I mean, and this is one reason I don't like politics, is-

Ryssdal: That's such a remarkable thing to hear you say.

Koch: ... it's so dishonest. I mean its spin. This is why Hayek wrote the essay, "Why the worst get to the top in-"

Ryssdal: Friedrich Hayek, very famous economist.

Koch: ... "Politics." I beg your pardon?

Ryssdal: Friedrich Hayek, a very famous economist who you quote in this book.

Koch: Yeah, Nobel Laureate.

Koch: Who was also a good friend? He was wonderful person.

Ryssdal: And he said?

Koch: And he, well, in his book "Road To Serfdom," he wrote one of his essays in there, one of the chapters was, "Why the worst get to the top in politics," because it's spin. If the politician tells people the truth, "Here's what you got to do, you got to work hard, you got to make a contribution to society, we can't have everybody trying to get what they can from the government and put the burden on other people. We've got to have people thinking, 'How do I contribute, and then want a share of what the value I'm creating for others?' so it's win-win, it's a system of mutual benefit, and that's what we're pushing for, and that's what Hayek, back in the 40's when he wrote that book, had the insight about.

Ryssdal: So if you feel that way, and if you're spending, the Koch brothers writ large are spending so much money on politics, reports are \$900 million dollars in the 2016-

Koch: No, but see, that's totally wrong.

Ryssdal: OK, what's the number?

Koch: OK, here's the, and this is the budget, and it's a projection of what the donors want to-

Koch: ... give to. 'Cause we say, "OK, here are all the things that can be done that may or may not make a difference," and our latest budget is going to be lower because people aren't contributing-

Ryssdal: How much lower sir?

Koch: ... as much. Probably the total budget over the two years I would guess would be 750, and the amount in politics is 250.

Ryssdal: In millions of dollars?

Koch: In millions of dollars.

Ryssdal: All right.

Koch: And as I said, very small portion of that 250 comes from the so-called Koch Brothers, and even less from me than from my brother because everybody can choose what they want to give to. So it isn't the Koch brothers doing it. It's other people doing it.

Ryssdal: You realize that comes across as sort of disingenuous, right?

Koch: In what way? It's the truth.

Ryssdal: You organize seminars, you fund grass roots organizations.

Ryssdal: You have money in politics throughout the system, and for you to sit there and say, "I'm sorry, this isn't really us," doesn't ring true and will not ring true when people hear this interview.

Koch: OK, but here's the thing. If this wasn't what people wanted, other people wanted to give to, the money wouldn't come because we're not putting it up. That's, I mean you can say, yeah, we've improved the capability, because we say, "OK, if you want to donate to these, we need to help make it more effective and to try to pick better candidates who will do a somewhat, maybe not go 70 miles an hour, and then hope there's a few who will agree and actually try to change the trajectory of the country."

Ryssdal: So what, how do you figure out your return on investment for the money that you and those who think like you invest in politics in America today? Because as you know, the electoral cycle this past couple of cycles has not been really kind to Republicans.

Koch: Well that's not true. In the off years it has.

Ryssdal: Well s-

Koch: And-

Ryssdal: ... sure, sure, but last time there was a race for the White House Karl Rove is the guy who stood up and said, "What are we doing? We're wasting all this money."

Koch: Yeah, noted.

Ryssdal: So how-

Koch: ... a lot of it is waste, and I'll give even-

Koch: ... a stronger example to make your case-

Ryssdal: I appreciate that, thank you.

Koch: ... that it's a waste, and, and that is there, there's a tax bill that comes up every year, it has 55 different subsidies called "extenders."

Ryssdal: Must make you crazy.

Koch: And so we contributed to a bunch of the congress people's campaigns, and so we wrote a letter to every congress person, "Please vote this down. This is a whole series of subsidies to things like making moves in an area, just one boondoggle after the other."

Koch: "Please vote against this." After all the Republicans, close to 250, only 46 voted against it. OK, so this is an experiment, so we're going to be looking harder at which Republicans we support, or Democrats, I'm happy to support d- We work with the white house on criminal justice reform.

Ryssdal: I know you did, and the president gave you a shout out in a speech a number of-

Ryssdal: ... months ago.

Koch: And we work with Van Jones.

Koch: As Frederick Douglass says, "I will work with anybody to do good, and no one to do harm." Now the question is, some of the people we've supported question whether they're doing more good than harm, and so we're going to do much more thorough analysis and learn from this. I talked about experimental discovery-

Ryssdal: Yes sir.

Koch: ... creative destruction. We're going to be applying that in this arena as well.

Ryssdal: Do you actually sit and figure out, "Well, we spent two million dollars on this issue, this issue, and it didn't go anywhere for us, we'll do something else," I mean are you that involved? You personally?

Koch: Well no, I don't do all that, just like I don't do all that-

Koch: ... in the company, but we apply that methodology.

Ryssdal: How come you guys are so secretive?

Koch: How am I secretive?

Ryssdal: Well-

Koch: ... I'm here talking to you.

Ryssdal: You are here talking to me, and I-

Koch: And I-

Ryssdal: ... and I appreciate it, and I'll tell you what, you are everywhere lately, right? CBS Sunday Morning. You guys are in Popular Mechanics for crying out loud.

Ryssdal: So clearly there's, whoever's doing your PR is doing a great job, but over the past decade plus or minus since 2003 and starting the seminars, you have made an art of not letting yourself be known in the public arena. How come?

Koch: Well see, I always believe what the mother whale told the baby whale. She said, "Son, the time you get harpooned is when you come up to spout off."

Ryssdal: (laughs)

Koch: So I follow that, and I've followed it too long, because for a long time people didn't know who we are, and I've been working in this arena for over 50 years, and for the first 40 we didn't get into politics, so we didn't have this. Then in 2003, because of what the Bush administration was doing, we said, "Gosh, we've got to get involved in politics."

Ryssdal: So let's be clear, that's George W. Bush, a Republican president, who's doing things you didn't like. Growing government, and all of that.

Koch: Increasing destructive regulations which led to the great recession.

Koch: Uh, getting us in wars that were counter-productive, and so on. So I mean, because in his campaign he said a lot of things we could agree with, but then the actual practice was so different, and that's what we find with politician after politician.

Ryssdal: Can you trust any of 'em?

Koch: Well yeah, I think there's a few percent.

Ryssdal: (laughs) A few? Some small number?

Koch: Few percent, so that's what I say. We've got to narrow our focus and not be supporting so many, and anyways. So, I mean it's like in business. We learn, we make mistakes, it isn't going the way we want so we're gonna change.

Ryssdal: What's your biggest mistake, the biggest mistake you ever made?

Koch: Well the biggest mistakes would be the ones that are heart rendering. We have hundreds of factories making dangerous materials, dangerous operations, big equipment, and so we have people injured, and have deaths. And when we do, I mean it is soul searching here. Why did that happen? How do we get the word out? And so what we do, we make videos now of the people who work with that person and what happened, how they could

have prevented it, and so others in the company say, "OK, this is a statistic. Our statistics are better than other companies." No. We don't want anybody to be injured or hurt, that's our goal.

And then another thing, OSHA has these metrics that are injuries, lost time injuries, all that. That's all nice and we want to work, but what the main thing is to prevent catastrophes. Present life changing injuries, or most of all, deaths. So we have those metrics on near misses, so we gotta get everybody, we've got to change the culture in the way people think. The way you do that is to get stories out that reach all the people doing the dangerous work, and all the supervisors on what's important, and the number one thing is safety. Number two and three are protecting the environment and compliance as you see in our principles.

Koch: And that's, this stuff, I mean a lot of companies have principles, but in many cases they're just posters on the wall or put in the desk. These are who we are as a company. These guide everything we do.

Ryssdal: What's the best part of your job?

Koch: Best part of my job is fulfillment. When I see that, which we're creating value, which we're helping improve people's lives, and we benefit from it, so it's a system of mutual benefit. Our philosophy's working. That's what turns me on. That's what keeps me going.

Ryssdal: Why are you still in Wichita, Kansas? I mean you could've, long ago, pitched Koch Industries up and moved them anywhere. Why?

Koch: We're very successful here.

Ryssdal: Fair point.

Koch: I mean this is a great place to be. There aren't a lot of distractions. There's not an ocean, there are not mountains.

Koch: Here-

Ryssdal: I guess that's a positive, sure.

Koch: Here people work. There's a great work ethic here, and we recruit from colleges where they have kids that grew up the way I did having to work all the time. It may not have been because of, had the father I did, but because they lived on a farm, and if you don't milk the cows you don't have any milk. If you don't sow the seeds and bring in the crop, you have no income, so you have to work, and so there's not this sense of entitlement. There's a work ethic, and a realization that if you want to get somewhere, you've got to create value. You've got to do something productive.

Ryssdal: So you've got two smart kids applying for a job at Koch Industries, one's got a bachelor's in engineering from Wichita State, and the other one's got an MBA from Wharton. Which one do you hire?

Koch: Well our -

Ryssdal: All other things being equal.

Koch: Yeah, our history would be we hire 'em from Wichita State, but there are a lot of good kids at Wharton too. We wouldn't rule 'em out.

Koch: We want to see what their values are. We hire first on values. Not on credentials, not how talented they are, because the worst thing to do is get somebody who's very talented with bad values. That is so destructive, as Enron found out.

Ryssdal: Wow. That's from a long time ago, Enron. I guess you remember that.

Koch: (laughs) yeah, do I ever. We did business with them.

Ryssdal: I'm sure you did. When you decide to work with people from across the isle as we talked about a couple of times, whether it's United Negro College Fund, or groups that support Hillary Clinton, or the president, or criminal justice, how do you make that, and this is kind of a loaded word, calculation? 'Cause that's sort of what you're doing, right?

Koch: Well there is no calculation. Well, there's this calculation. It's whether this follows Friedrich Douglas' philosophy, "I will work with anyone to do good, and no one to do harm." If we believe somebody sincerely trying to change the criminal justice system to not be so destructive, to disadvantage people's lives, then we'll work with 'em. Now if they're not really sincere and we don't believe that, and a lot of them worry that we weren't sincere. Well we've been working at criminal justice reform for a long time. Matter of fact, I started in it in the 70's.

We only work to a certain extent on education and research until it looks like we can help build a coalition to get something done. 'Cause we're not interested in tilting at windmills. We're interested in actually changing things for the better. And the same thing would go for these Republicans that don't do it. OK, if we can work with 'em on an issue, then we'll support 'em, and these groups that agree with us on an issue like criminal justice reform, we're delighted. That's what we're looking for - how to build coalitions, and we hope two of the next ones that we're gearing up on is this occupational licensing and other poverty creating regulations, and then supplementing the educational system so that every kid has the opportunity to learn the values and skills required for success. Success by making a real contribution in society.

Ryssdal: If your preferred candidate wins whatever race you're in, and you have a chance to carry the day, what does this economy look like once Charles Koch is done with it? For example, you're going to get rid of corporate welfare, tax breaks, regulations, loop holes, all this. What about aid for the poor and disadvantaged? What are you going to do with that?

Koch: Well I mean, I think there will be a lot less poverty and a lot less disadvantaged, but-

Ryssdal: Because you would stop aid programs?

Koch: No. Well, I mean-

Ryssdal: Like welfare, and supplemental nutrition-

Koch: Well yeah.

Ryssdal: ... and things like that.

Koch: But here, let's go back through welfare. When LBJ started the war on poverty in 1965, his goal was to get rid of the dole as, these are his words, "I want to get rid of the dole and turn tax eaters into tax payers." OK, that's our goal, but now we've spent over 20 trillion since then on the war on poverty, and the poverty levels are the same, so this isn't working. So we need to reform it so it doesn't create these obstacles to the disadvantaged becoming productive, contributing citizens, and just sit there on the dole. And I don't believe for a minute people want that.

They say, "Oh, well people are lazy." Yeah, because you block all opportunities. They smoke a joint, and they go to prison, and they can't get a job, they're ruined. Whereas we have a president who smoked a joint, and he becomes president. We have a candidate who says he smoke a joint, he's running for president. Now what's the equity, what's the fairness in that? We need to get rid of those distinctions and those differences in opportunity, and then we need to teach these kids the values and skills required for success.

Now, there will still be some who can't make it. So there needs to be a safety net. Now the question is, what's the balance between force, which our current welfare system is based on, and voluntary cooperation and competition? I would argue we have too much force just like we have in the criminal justice system, and it needs to be a balance, and we need to use local knowledge. That is are all these so-called benefits, are they helping people or hurting them? They're probably helping some, and they're hurting others because they have a disincentive to work. And as I learned that unless you start working, if you're frozen out of work, you will never learn the habits, the discipline, the values of cooperation and improvement unless you get a job, and that's what statistic show. It's, unless you get a job and keep it, you will not get out of poverty. If you do, you have a very good chance of working out of poverty.

So that's, we want the emphasis more on education and opportunity than, than dole, just like Lyndon Johnson wanted. Now, exactly how to do it? We don't have all the answers, but we think directionally we know that what's been done, in a large part isn't working, but there still needs to be a safety net.

Ryssdal: This is one of those questions that I know before I ask it, you're not going to answer, but who do you like for the White House in 2016?

Koch: I don't know. I would like somebody who's going to change the trajectory of the country, rather than take us down this same road we're on at 70 miles an hour or 85 versus 100. I mean that's some benefit, but we need somebody who will come in and really deal with these fundamental problems that are keeping the country back from the potential. We, with all the technologies out there now, we have the potential to have the best lives for everybody than anybody ever dreamed of.

Ryssdal: But wait. Warts and all, and there are many of them in this society and economy, we are by any measure you can think of the richest, most powerful society in the history of the planet. Is that not good enough for you?

Koch: Well no uh, we're not. We're not the, the richest anymore. I mean other places do. Other places are freer and so on.

Ryssdal: But sir, no, come on. That just doesn't stand up to reason.

Koch: Well, it's true. We don't have the highest income, we don't, we no longer, highest median income which as I said, has gone down.

Ryssdal: Uh-huh (affirmative)

Koch: Uh, we don't have the, the most economic freedom, we were before the Bush administration. We were third, now we've dropped, depending on which measure, to 16th.

Ryssdal: In what? Economic freedom?

Koch: In economic freedom, and that correlates very well with prosperity. So, I mean you look at this, I mean, doesn't that bother you? That the median income and the income of the, of the, the least advantaged is going down? That, you're OK with that? I'm not. That's what I want to change.

Ryssdal: There's a different question to ask too, and that is this: median income in this country is \$53,000 dollars a year, plus or minus. What do you think the person making \$53,000 a year in this country feels like, economy wise? How do you think their economy feels to them?

Koch: Well if you believe the, the polls, and you see you see what polls about, is the country going to be better for my children than me? The majority say it's not, which up until a few years ago, that wasn't the, the case. You look at the candidates they want. They do not want, I mean they're for Bernie Sanders, Donald Trump Carson and so on, people who are non-politicians. People want a change. They do not want the direction the country's going, and neither do I for the very reasons I've been describing.

Ryssdal: Can you foresee a day when you will not be involved in policy and politics in this country?

Koch: Oh yeah, I'm an old guy.

Ryssdal: Yeah, but here you are still running a hundred billion dollar company, and working nine hours a day, and going to the employee cafeteria when you don't have to.

Koch: Well I work more than nine hours a day. Come on, don't-

Koch: ... don't get me short shrift here.

Ryssdal: All right, so-

Koch: Come on, what, do you think I'm a slacker?

Ryssdal: Well, so that's the question.

Koch: (laughs)

Ryssdal: Here you are almost 80 years old, you don't have to do this anymore.

Koch: No, of course not, but I do it because I feel a moral obligation to use whatever abilities I have to try to make things better, both in our company, and in society. You don't have to agree with me, and it doesn't matter to me, because what counts to me is that I'm doing the best I can by my own standards. I'm, I mean I feel a little bit like probably Martin Luther did when he was on trial, and he said-

Ryssdal: The original Martin Luther?

Koch: Yeah. "Here I stand, I can do no other." I mean If I didn't, if I weren't doing the things I'm doing, and I see what's going on, I would be so frustrated I would probably explode or have a heart attack. But since I'm doing everything I know how, and is it all good, does it all work? No, as you pointed out, there are a lot of problems with it. We've got a lot to learn, we've got a lot of improvements to make, and that's what I'm working on. But I feel I'm doing everything I can the best I can, and that's all I can do. So when I'm on my death bed, that's what I want to be able to say. I did the best I could, I made a lot of mistakes I screwed up a lot, but I did the best I could, and that's all I can ask of myself. That's all anybody can ask of his or her self.

Ryssdal: The idea that you're OK with people disagreeing with you, which hopefully we all are. Do you think it's possible for us to have an honest discourse when you have the means to so heavily influence the debate?

Koch: I don't see I'm ... I would like to more heavily, because I would like-

Ryssdal: No, come on.

Koch: No, no, absolutely. You look at the Republican debate. Do you see the things I've been talking about in the debate? You see people saying these things that I'm saying? No.

Ryssdal: No sir, I don't.

Koch: So how am I influencing the debate? I mean when we've talked to the politicians-

Ryssdal: So you're wasting your money.

Koch: Yeah. Well we haven't put any money into the-

Ryssdal: Oh well, fine.

Koch: So, I mean we've learned that we need to see who has some chance of trying to make a difference, rather than just going with the flow and going right down the stream over the cliff.

Ryssdal: We started with your dad, let me end with your dad. Let's say he comes back to life and walks into Wichita 2015, and comes to the Koch tower here on the campus. What does he say to you?

Koch: He'd say, "Holy mackerel!" (Laughs) No, but it's, I mean I'm the same way. As I, as I've said when I first came with the company, being mathematical, I said, "OK, here's, if I can implement my ideas here, here's how much I think we can grow," and I plotted that out 'til my retirement, and two years ago we exceeded my lifetime goal by 70 fold. So I can't believe it. So it's way beyond my expectation. As I like to say, it's better to be lucky than smart, so I did the best I could, and it worked out beyond anything I believed possible.

Ryssdal: Without presupposing that you're going anywhere any time soon, what happens when you're not around anymore? You've got a couple of kids, you want them to come in and run it like you did for your dad. What do you want to have happen?

Koch: No, my daughter is a writer and a publisher and she's great at that. As a matter of fact, she's very talented. She painted-

Ryssdal: Oh I like that.

Koch: ... this painting-

Ryssdal: That's really nice.

Koch: ... at age 16.

Ryssdal: Wow.

Koch: So she's very talented, and I write books, but I mean, her writing ability is orders of magnitude better than mine. So that's her passion, and that's what I want everybody to do, and that's the way we raised our kids. Don't try to be me, be yourself. Understand what abilities you have to make a contribution and you have a passion for, and they'll make you happy in your life. Be yourself. And my son is here, and he's great. I'm very proud of both our kids. They both have integrity, humility, and treat other people with dignity and respect, and that's the way we raised them, and they're beyond my expectations just like what we've done here. So I'm blessed. I want in this company is to have a meritocracy, and division of labor by comparative advantage. That is, as I raised the kids, that is, everybody focus on where they have an aptitude and what they have a passion for, it will give them fulfillment. And so, if my son ends up being the best person to run the company, that's great. If he's not, he shouldn't be, and-

Ryssdal: Have, have you told him that?

Koch: No, and every, matter of fact, every promotion, every bonus he gets, I say, "OK, prove to me he's not getting that because his name is Koch."

Ryssdal: Are you as tough on your kids as your dad was on you?

Koch: Not quite.

Koch: But pretty much. Now for example, my son was a very good tennis player. He was nationally ranked when he was 12, and then he lost passion for it, so he started sluffing. So I called him in, and when he was, I don't know, 16, and I said, "Son, either you give 100% on this or you need to get a job," and he was like that. He says, "Oh, I'm burned out on tennis, I want to get a job." Now I think he thought, he didn't tell me this, that he would get a nice job in Wichita and go out and party with his buddies.

Ryssdal: I was going to say, did you have him digging fence posts? What did you do?

Koch: No. So the next day, the manager of, we owned feed lots, and we don't anymore. Feed lot in western Kansas, drove up in his pickup, picked him up, took him out there, and he worked 7 days a week, 13 hours a day shoveling manure, and popping boils on animals, and he came back feeling better about himself than he ever had because he got along with everybody, he worked right with them and-

Ryssdal: He didn't say, "Dad, I want to play tennis?" (Laughs)

Koch: No no, no no.

Ryssdal: Oh man.

Koch: And from then on he worked rather than played tennis.

Ryssdal: You run an enormous company. You have a large public profile, for as much as you've tried not to. Does that help you or hurt you in running this business?

Koch: Well I'll put it this way. It certainly helped me in selling books.

Koch: I mean because my first book, Science of Success, it wasn't nearly as good a book, I think because I drew on a lot more knowledge than just my own in writing this book, which is Our Republic Of Science philosophy. I actually applied it here rather than tried to do it all myself, and so we had a hard time getting a publisher, we could only get one. Now on this one we had many publishers want it-

Koch: ... not because of me, but because of all the attention. They knew it would sell much better. I think the same thing is true. I mean there are boycotts on us and stuff. We can tell any- I think for every person who boycotts this, there are probably two or three that want to buy our products because they know what we stand for. That we want to create value for our customers, and they can count on us, and the companies that we've dealt

with over the years will confirm that. That's, are we perfect, do we do everything right? No, but our intent is to, is to create, first create value for them, and then we expect to share in that value.

Ryssdal: You talk a lot about customers in this book, and how, and, and in all your philosophy really, and your, your, um-

Koch: Principles.

Ryssdal: Right, yeah. It's all about the customer. You have to meet the customer's expectations.

Koch: Well, exceed them.

Ryssdal: Well, OK, you've got to exceed them fair enough. So you know who your customers are in business, right? Whether it's oil and gas, or lumber products, or, you know oil tower products, whatever it is.

Koch: Or stained master carpet, or-

Ryssdal: Take your pick. All that stuff. Who are your customers in politics?

Koch: Uh, well it depends. I mean if you're just talking about politics, it would be the American people. That is what American people value and I think it's two things, is people want a more fair, just society, and people want to have better lives for themselves and their family. So what we're looking for, politicians who at least to some extent we believe will try to do that, and then communicate that to the American people. And that goes, but that goes beyond politics.

Ryssdal: Well I was going to say, so who are your customers in policy then, right? That's the follow on question.

Koch: Oh, then in policy it would be the politicians-

Koch: ... and the bureaucrats.

Ryssdal: Right, right.

Koch: Who are making that? Then they would be our customers there, and we have to try to convince them that this policy is destructive for the American people rather than beneficial.

Ryssdal: Um, what do you do to relax? You golf, right? What else?

Koch: Well I'm not golfing a whole lot these days.

Ryssdal: Not with a bum foot.

Koch: But I, yeah. I golf, I average probably one and a half days a week through the year golfing, and that's good. And I work out every day, work out for at least an hour, hour and a half a day.

Ryssdal: Are you one of those up at the crack of dawn people?

Koch: No no no. Well, I mean I get up at 6:00-

Koch: ... but I don't get up at 4:30 or 5:00. I get up at 6, and I work out in the afternoons and evenings, and um-

Ryssdal: And then how do you unwind? Do you go home and, and have a beer, and watch some TV?

Koch: No, I work. I work, after I work out, then I work, and I read. I read and while I'm working out I watch TV.

Ryssdal: What do you watch?

Koch: I watch, well, I like mystery shows, detective shows. I watched Stossel, I watch, uh-

Ryssdal: Oh, John Stossel? Yeah.

Koch: ... I watch "Morning Joe," I watch on MSNBC-

Koch: ... I watch, um "The Five" some, if I'm-

Ryssdal: On Fox News?

Koch: Yeah, I watch that. I of course watch Megyn Kelly. She did an interview, so I-

Ryssdal: Yep.

Koch: ... I, she does a good job. I watch programs like "Homeland," I enjoy that.

Ryssdal: Yep, it's a good one.

Koch: Or "The Americans."

Koch: I liked, I liked-

Ryssdal: Damn communists.

Koch: ... stuff like that. Yeah, I like that.

Koch: No, I like those kind of shows. I've been a history buff, and a buff on revolutions for years, and so I'm fascinated - Like, I like the movie "The Reds." Do you remember that?

Ryssdal: Oh yeah. No, not "The Reds," just "Reds," right? Was that about-

Koch: Oh, "Reds," yeah.

Ryssdal: Yeah yeah.

Koch: "Reds," I thought that was fascinating.

Ryssdal: With uh, Warren Beatty, right?

Koch: Yeah, but I had the, all these characters in it, the revolutionaries. I had read about all of 'em.

Koch: So it was fascinating to me to see they were portrayed versus what I'd read about.

Ryssdal: Charles Koch, thanks very much for your time.

Koch: Thank you, enjoyed it.

Full Transcript of Charles Koch's Interview with Fortune
By FORTUNE EDITORS July 12, 2016

Charles Koch, as CEO of Koch Industries, has grown the private company from \$200 million to more than \$100 billion in revenue. The billionaire has long been a big donor to conservative causes but for most of his 50 years as CEO, he was press shy. Lately, though, he has publicly weighed in on a range of issues, including Donald Trump's candidacy. On Monday, at *Fortune's Brainstorm Tech* conference, he had a wide-ranging, candid discussion with Alan Murray, *Fortune* Editor, talking about everything from how he hires to whether he will support Hillary Clinton.

Here's the transcript of the interview. It was lightly edited.

Fortune's Alan Murray: Charles, thank you very much for being with us. You've been CEO of Koch Industries for fifty years. And during most of those years a conference staged like this would be the last place anybody would find you.

Charles Koch: With all these wonderful people? Are you kidding me?

I'm told you barely even went out for lunch. But in the last year you've started doing more publicly. Tell us why you are going from the very private Charles Koch to the new public Charles Koch.

Well, we grew to a size and gained enough notoriety that we had to. Because there were all these misconceptions about who we were, what we did, and why we did it, that we needed to.

And I said okay, I will do it as promotion of my book last year. And I'm sure all of you have mobile book copies and given hundreds to your friends. That's why the sales was so good. But once I agreed to that, and then I had a great interview with Megyn Kelly, and then, kind of said, "Well maybe I'll do more, if they're all as good as that one."

But you talked about the notoriety. In political lingo, you were being defined by your opponents.

Isn't that how we're all defined more or less?

Yes. So what was wrong with that picture?

I think it would be an easier answer to answer what was right with it. No, when they read about you in the media, what portion should I believe, is the question I get. And I'd say oh, about 10%.

That bad?

That bad. But I mean it depends on the publication of course. Some would be zero and some would be the majority.

Presumably Fortune would be on the high side but we won't go there.

We would hope so.

So I want to come back to the notoriety and the politics in a little bit. But I want you to talk first about how you run this company. Because I think it's very unique. Koch Industries, when Charles took over, had about \$200 million in revenue. Today it has a \$115 billion in revenue. We're told the revenue doubles every six years or so. Could you have done that if you were a public company?

Well maybe somebody could. I couldn't have because I would have been fired. Because I had these crazy ideas drawing from my interest in the philosophy of science, the scientific method, and my studies of how people can best live and work together.

And so I would say, okay, I'd like to take those ideas on what makes societies more innovative and progressive and productive than others. And let's find out how to sue those inside an organization.

Why would that have gotten you fired?

Well, because most of the time it didn't work. Because an organization's different than a society, so you just can't take private property; every employee owns their property and exchanges.

And you have internal markets. Well, that doesn't work. So you have to think through, and we did think through, what are the benefits. And then how do we duplicate the benefits? But we've got to use a different mechanism.

And I believe that most innovation comes from trial and error. And it's not just trial and succeed; the error is there for a purpose. Like I say to our people, "If you think you're experimenting and you never have any failures, you're not really experimenting." You're not trying anything new. And so we went through quite a period where what I was doing was hurting the company. Because everybody was confused. And then we finally came up with an approach that really started to pay off.

Can you briefly describe the approach and how it works?

It's based on the philosophy of science, and we learned to boil it down into a framework of five elements called, vision, virtue and talents, knowledge process, decision, rights and incentives.

And each one is a package of dozens of principles, elements, and practices. And we find when all those are working together in an integrated reinforcing way, you really get performance.

Can you give us one example of how that works in practice that's dramatically different from the way most public companies work?

In the experience of people we hire and the companies we acquire, we find that most [companies] hire first on talent and then they hope that the values are compatible with their culture.

We hire first on values. And we have ten guiding principles. Many companies have principles but we found also in many companies that there are some they stick in the drawer. It's a poster on the wall. These principles are who we are as a company. They guide everything we do including who we hire. That's one.

Another is the division of labor by comparative advantage. And what I mean by that is that rather than you have a vision, you need certain roles filled and you try to get the best person for each one. We try to optimize every person's role according to what they're good at and have a passion for. And this is not easy, as you can tell. This takes a lot of work and intensive care.

But we find when we get all that right, the right people in the right roles with the right vision and the right values, then we really have great innovations.

So choosing, getting the right people. Choosing the team comes first.

That's first.

Now I've told you it's my theory that the reason you after being so incredibly private for 49 years have started to talk more publicly is because in the competition for talent, you feel like you have to get a positive story out there or people aren't going to want to work for Koch Industries.

That's a good part of it. No question. As usual, you have great insight Alan.

Thank you. And is it working? You have this sort of notoriety that was created by the press, in part because of your political activities. I wonder by the way, did your political activities in that sense hurt Koch Industries?

It's not measurable. We have a lot of boycotts against us. And then we have a lot of people who write and say, "We're going to start using all your products." So I don't know what the balance is. But we can't measure it. I would think overall it's positive.

You never thought, we should just shut this down and focus on doing our business?

Shut it down? As I like to say, I'd rather die for something than live for nothing. So there's no alternative for me. This is who I am.

So since we're on this topic, talk a little bit about what you have spent literally hundreds of millions of dollars, probably more than that. You spent a fair amount of your fortune trying to change the political system.

Well, I mean we've spent a considerable amount, but we've raised a lot more.

You've raised other money as well. Talk about what you were trying to achieve with that.

Well we see, or I should say I see that the country headed towards a two-tiered society. A society increasingly based on control, dependency, and cronyism. Which is pitting individuals and groups against each other.

And my dream would be to move us toward a society that maximizes peace, mutual respect, and well-being for everybody.

Now in the money you've invested in your business you've gotten incredible returns. And the money you've invested in politics, how do you feel about the return you've gotten?

Well, most of that is obviously not in politics because it's hard to find politicians who are really working, trying to change the trajectory from where it's going, to where I believe it could go. And so most of it has been on education, community programs, and things of that sort.

But you've spent a fair amount in politics. You're one of the largest givers.

We are?

Yes, you are.

Okay, well I'll take your word for it.

How do you feel about the progress you've made in the political arena?

Well not so much in politics, but in policies. We've done some good over the years. Moving towards less regulation, less - well, let's say productive rather than destructive regulation.

Generally that means less regulation.

Yeah, because there's a lot of regulation that's very destructive and anti-competition and anti-innovation.

I want to come back to the anti-innovation point but before we do, since we're on politics can you talk about what you see in the current presidential election?

Yeah, I see two people that as of this point, we're not supporting.

But the day may come where you have to make a choice, for one of them.

Why do I have to? Are you going to put a gun to my head?

No, but I can tell from talking to you that you're a conscientious citizen who will want to cast a vote in November.

But if I had to vote for cancer or heart attack, why would I vote for either?

And can you tell us which is cancer and which is heart attack?

Oh, I get confused on that issue. I just don't want them both at the same time.

But what about Donald Trump, what's your problem with Donald Trump?

I'm sure he's a fine fellow underneath, but when you look at our guiding principles, you see that his guiding principles are in many ways antithetical to them and a great many of his policies are antithetical.

For example, if we're going to put on a 40% tariff, the Smoot Hawley was 60% increase in tariff. And it caused a reduction in world trade by 70% and lead to worldwide depression. So I think that's a monstrosity.

So not a great way to go.

No. And there are a number of others. But we don't have time to go through all those.

But I think in one television interview, you were asked well then would you vote for Hillary Clinton and you said something like, "Well I might."

No. It's like I rode up in the elevator with Charles Barkley at the Barcelona Olympics. And he was being attacked, and I said something and he said, "Yeah, the media never lets the truth get in the way of a good story." And that's it.

I'm here to let you tell the true story.

Okay. So the deal is - what I said is, would you ever support her? I said it's possible if she totally changed everything she stood for. And they spun that around to I might support Hillary.

Okay, I've got to be more careful of what I say. You can see why all those years I didn't give interviews.

Let's talk about innovation for a minute. Because this conference is really created around innovation. And we've already had a lot of conversation today about the perception that the speed of innovation is faster than it's ever been.

Absolutely.

And yet you have concerns about what our culture is doing to squash innovation.

Right, and fortunately in information technology it hasn't been as intrusive. But as you all know, there are a lot of forces out there trying to move that in the same direction it has on pharmaceuticals and agriculture and so many other areas.

And to me, this is frightening because I think if we had permission less or open innovation, the growth rate in this country could be beyond what anybody believed. Because that's the driver of improvement.

People think okay, it's capital. If we just said more capital, go back to before we had automobiles and airplanes. We'd have more horse and buggies. Okay that would slightly make peoples' lives better but what really made it better is innovation. Developing automobiles, and airplanes.

And if we had the same precautionary principles on getting innovations like that improved. Particularly things that are unsafe as airplanes and automobiles, there's no telling how long and how much money that would take.

So that's what we're worried about. But our whole company is based on innovation. And I like to think one of our most powerful innovations was coming up with our management philosophy. And maybe some of our people disagree with that, which is great.

But what we try to model our company around is what a philosopher scientist [Michael] Polanyi called "The Republic of Science." And that is where all the people working on a problem share knowledge. You try to bring the best technology and ideas from around the world and you integrate them, and you challenge.

Nobody has the best answer. You challenge at every level. And so we have a number of mechanisms to do that. The first one is who we hire. We try to hire people who are open, who want challenge, who have humility. They don't have all the ideas that none of us know very much. No matter how smart or knowledgeable we think we are.

And then to combine that with other people's knowledge. So if we're in a field, we try to constantly gather all the relevant information. Not only in our fields but other fields that could benefit us. And then we share knowledge internally.

And we have something called the Discovery Board. We meet once a month, and everybody, every one of the participants, rotating, of course, brings up a problem or an opportunity, and the rest of us challenge it.

And I love it. I [say], "Here's an idea of something we ought to do and here's how I think we ought to do it." And the last one I got six different attacks. I don't mean just, oh that is wrong.

They do that?

Oh yeah.

And you don't fire them?

I love it. Are you kidding me? Because those people who don't want criticism of their ideas because their ego's too fragile? Well, how about if you implement it and you fail? Talk about a fragile ego at that point. Your career is ruined. So they can keep me from a disaster; I love it.

And then we have something called Innovation University where we put out materials to share innovations throughout the company. And the principles of innovation. For example, as I said on experimentation, that what we expect if somebody's running an experiment to design it in a way that if it fails, you learn enough that you're glad you did it.

It's like Edison said on inventing the light bulb: It had 3,000 or more failures. And a friend said gosh, "I'm so sorry you had all those failures." He said, "I haven't had any failures. I've learned 3,000 things that don't work."

And so that's our attitude. Now if you don't design it properly, you don't really learn. And you don't attack the most critical problems first. If you kind of prove some marginal things, but the main potential problems you haven't dealt with, then that's waste.

You need to start with the toughest problem first, and then try to disprove what you're doing. Because it's like when we used to do oil

exploration, what I used to hope for was a clean dry hole. If we weren't going to have a gusher, the next best thing is to have a clean dry hole.

Why do I say that? Now we've got to test another reservoir. Maybe drill another well to prove there's —

It's fail fast.

Yeah, fail fast. Absolutely. Karl Popper wrote a wonderful essay on this called "Science as Falsification." That none of us, none of our hypotheses are very good.

None of us know very much. So our obligation is to try to disprove it. And the author needs to try to disprove it and get challenges to make them think about what could go wrong. And then if you can overcome that, then you can have something you really can go with.

I've got a lot more questions but I can tell already that there are a lot of questions out there. And I'll start right back here and then come up front.

John Vane: Thank you. My question is do you believe in anthropogenic climate change? And given the risks of being wrong, don't you think it might make sense to err on the side of caution?

Oh, precautionary principle at work here. Good. No, that's a great challenge. Yeah I believe it's been warming and I believe that the evidence is there are such a thing as greenhouse gases, and they're contributing to that.

But I don't think anybody knows how much. I don't think science is settled. I mean how could it be? The people who are projecting, or who have these models, okay, if we do this the other could be increased by one and a half degrees to four and a half or six.

The ocean could rise 20 feet or two feet. So it is not settled. As a matter of fact, science is never settled.

But you've been very outspoken about subsidies to renewable energy.

Oh, subsidies to everything. I think this is a big part of what's hurting this country is cronyism and corporate welfare.

Some of which you get.

Oh yeah, so we make a lot of money off of it as any established company because it's endemic in the economy. But what I object to is not studying – I think there ought to be more study. It is not the scientific method to criticize and try to silence those who are challenging it.

If we want to have more progress, we need to welcome just as we do in our company, welcome challenges to this rather than name calling and trying to shut them up.

Some people think your challenge has a little more clout than other peoples' because you can put a lot of money behind it.

Well that would be good. I would hope so. I haven't seen I have a lot of clout but I'm looking forward to that day.

We'll take that question here and then can we bring a microphone up here to the second row please? Go ahead.

Jason Rapp: Hi sir, Jason Rapp from Science Inc. A follow up: if you were spending a lot of money to influence policy, if you were put in charge of climate change policy, how would you approach that? How should a government which is supposed to look at economic externalities, public will overall, how should government approach that issue?

No, that's a great question. Thank you. No, I'd get rid of all the corporate welfare. I would not have the government picking winners and losers. Particularly un-economic solutions or products or systems that are making people's lives worse rather than better.

They even under all the models; they will make very little difference in the future on what the temperature or the weather will be. And instead I would break back all the barriers to innovation and trying new things. New forms of energy, and let people be free. That's what's caused progress in the world is free people; liberated people are ingenious. Those people who are trying to silence, enslave, over-regulated or not, that's our future.

And then that's win-win. Because we'll have better forms of energy that will deal with the problem. And what we have now are very inefficient systems that are making peoples' lives worse.

But there is a market problem here, right? If you believe that carbon is contributing to the warming of the Earth, there is no cost on emitting carbon, so there's no market incentive that takes that into account.

No, no, there is a market. There are a lot of people who believe in that, so you have pressure from your customers. I mean we in our business with Walmart, we are constantly working on how to save on transportation.

Because your customer wants it.

Because your customer.

Do you think that's sufficient?

And we want too. And so we got into biofuels and making chemicals with biotechnology because we found that the basic biological, or biotechnology was at a point that we could combine pieces and make chemicals out of CO₂ and hydrogen cheaper than we could make them chemically.

So we're doing that. No subsidies or anything. But we have a huge undertaking.

Based on pressure from customers?

Well no, this is based on what many people want. So we're going to do it, if we can do it economically. But we're not going to go seek subsidies

or advocate subsidies for that because we think that's counterproductive.

Michael Miller: Michael Miller, Ziff Brothers and PC Magazine. You talked about innovation. One of the things that's been clear over the past little more than ten years is that productivity numbers in every market across the world have gone down from what they were 10, 11, 12 years ago. How much of that do you blame on regulation? And are there other factors that you think are important?

Well I think that's the biggest one. And then that comes from my study of history. The slogan I like best of countries is Holland in the 17th century, and it was listen, even to the other side.

And so after they got freed from Spain, they reorganized the society to have absolute free trade, free speech, welcomed dissidents from all over the world. And they had an explosion, they became the wealthiest country in the world through their innovations.

And not only in economics, in art, in everything. And that's my dream to move our country and every country that would toward that. And then this gets rid of the divide. The divide comes - if you control the political system, you do well and the people who don't you punish.

9. CHAPTER 7: Larry Ellison

LARRY ELLISON

CTO and Founder, Oracle

Real Time Net Worth – as of 6/10/18 - \$58.9 B

2018 Billionaires Net Worth – as of 3/6/18 - \$58.5 B

- Larry Ellison cofounded software firm Oracle in 1977 to tap into the growing need for customer relationship management databases.
- He gave up the Oracle CEO role in 2014 but still serves as chairman of the board and chief technology officer.
- As part of Oracle's push into cloud computing, it acquired cloud-software firm Netsuite for \$9.3 billion in 2016.
- Oracle moved into hardware with its 2010 acquisition of Sun Microsystems for \$7.4 billion.
- In 2016, Ellison pledged to give \$200 million to the University of Southern California for a cancer treatment center.

Larry Ellison Advice

“When I do something, it is all about self-discovery. I want to learn and discover my own limits.”

“I have had all of the disadvantages required for success.”

“Great achievers are driven, not so much by the pursuit of success but by the fear of failure.”

“When you innovate, you’ve got to be prepared for everyone telling you you’re nuts.”

“See things in the present, even if they are in the future.”

“A corporation’s primary goal is to make money.”

“Wealth isn’t the same thing as intelligence.”

“The only way to get ahead is to find errors in conventional wisdom.”

“Act confident, even when you’re not.”

“Taking care of your employees is extremely important and very, very visible.”

“You cannot innovate by copying.”

“I’m addicted to winning. The more you win, the more you want to win.”

“You have to believe in what you do in order to get what you want.”

“You have to act and act now.”

“The most important aspect of my personality as far as determining my success goes; has been my questioning conventional wisdom, doubting experts and questioning authority. While that can be painful in your relationships with your parents and teachers, it’s enormously useful in life.”

“There’s a wonderful saying that’s dead wrong. ‘Why did you climb the mountain?’ ‘I climbed the mountain because it was there.’ That’s utter nonsense...You climbed the mountain because you were there, and you were curious if you could do it. You wondered what it would be like.”

“When I started Oracle, what I wanted to do was to create an environment where I would enjoy working. That was my primary goal. Sure, I wanted to make a living. I certainly never expected to become rich, certainly not this rich. I mean, rich does not even describe this. This is surreal. And it has nothing to do with money. I mean, you buy clothes with money, and cars. But I really wanted to work with people I enjoyed working with, who I admired and liked.”

“When you live your life in different ways, it makes people around you become uncomfortable. So deal with it. They don’t know what you are going to do.”

“All you can do is every day, try to solve a problem and make your company better. You can’t worry about it, you can’t panic when you look at the stock

market's decline. You get frozen like a deer in the headlights. All you can do is all you can do."

"I believe people have to follow their dreams – I did."

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