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Market Intelligence

Berkshire Hathaway Inc.

NYSE:BRK.A

Shareholder/Analyst Call

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Call Participants

EXECUTIVES

Ajit Jain
Vice Chairman of Insurance Operations & Director

Charles Thomas Munger
Former Executive Vice Chairman

Debbie Bosanek

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

Marc David Hamburg
Senior VP, CFO & Secretary

Warren E. Buffett
Chairman, CEO & President

ATTENDEES

Becky Quick

Meredith Benton

Tim Youmans
Hermes Investment Management Limited

Unknown Attendee

Presentation

Warren E. Buffett
Chairman, CEO & President

[Technical Difficulty]

Virtual Annual Meeting of Berkshire Hathaway. We did it in Omaha last year on short notice. We had more warning this time, and so we came to Los Angeles. And the reason we're doing it from here is because of the man on my left. Not because he asked for it but because all of us wanted to do it with Charlie and here in Los Angeles.

So I'll introduce the 3 Vice Chairmen of Berkshire in a minute. I'll show you the first quarter earnings. I won't take much time on that. I'll have 1 or 2 very short lessons for perhaps the new investors who are not necessarily in Berkshire Hathaway but people who have entered the stock market in the last year. And there's -- I think there have been a record number that have entered the stock market. I'll have a couple of little examples for them.

And then we'll swing into a Q&A led by Becky Quick, who's looked at thousands of questions that have been submitted to her. But more can be submitted during this meeting, and we will put up a camera from time to time. That way, you can communicate directly with her if you want to send questions in during the meeting. She got flooded with them last time, and she miraculously keeps sorting them out.

And so feel free to send in a question, and we will have a question period for about 3.5 hours. And then we will finally have the annual meeting, which won't take long, at the end.

So with that, I would like to first introduce the 3 Vice Chairmen of Berkshire Hathaway. I'll tell you just a little bit about them, and then I'll have a mild surprise for you at the end perhaps.

On my left, Charlie Munger. And I met Charlie 62 years ago. He was practicing law in Los Angeles. He was building a house at that time a few miles from here. And 62 years later, he's still living in the same house. Now that's kind of interesting because I was buying a house just a few months before, 62 years ago, and I'm still living in the same house. So you've got a couple of fairly peculiar guys, just to start with in terms of their love affair with their homes.

And Charlie and I get it off immediately. And I would say he's probably the Vice Chairman in charge of culture, among other things. But if I ever want to get questions about where true north is, I talk to Charlie, and he has been an enormous help. He's done it with a lot fewer hours and a lot less talking and everything that I have, but he's contributed in an incredible way to Berkshire. So Charlie has been out here in Los Angeles for 60-plus years.

On my right, your left, I have the Vice Chairman in charge of everything except insurance and investments, Greg Abel. Greg was born and raised in Edmonton, Alberta. He's Canadian, plays hockey. His 8-year-old plays hockey. And he came to the United States sometime after he graduated from college in Canada. And he is in charge of a business which has about over $150 billion in sales; and employees, 200 -- more than 250,000, probably 275,000 people; and does a much better job at doing that than I was doing previously.

And on my far left, your right, we have Ajit Jain, and Ajit was born and raised in India and graduated from college there. And I met Ajit on a Saturday in 1986. And I had been in the insurance business, Berkshire has been in the insurance business for quite a while. And I was kind of stumbling around in various ways, and Ajit came to the office on Saturday, I was opening the mail. And I said much about insurance, and he said nothing. And I said, well, nobody is perfect, and let's talk about it some. And by the end of the morning, I knew I had somebody that was going to build a great insurance business.

And starting from that point, this improbable little company in Omaha became the largest property casualty company in the world in terms of net worth. It writes risks that -- it writes risk occasionally in a 24-hour period that other companies simply couldn't take on themselves. They'd have to assemble other people who would take them a long time to come to a decision. That was very important at various times in the past. It's not so important now. But he's built an incredible -- the world's leading property casualty insurance company.

So here we have Charlie from L.A., 60-some years. We've got Greg from Canada. We've got Ajit from India. And the one thing in common that these 3 fellows have aside from working for Berkshire and doing a sensational job, the one thing in common is that, at one time or another, for some extended period, they lived within a mile of me in Omaha, Nebraska.

And Charlie, in 1934, moved about 100 yards away from where I now live and went through high school, eventually went into service and knows the neighborhood as well as I do, went to the same great school my kids went to and so on. Greg spent significant time in living in Omaha, lived about 5 or 6 blocks from me and now lives in Des Moines. And Ajit was in Omaha about a mile away for a couple of years. So we started in very different places and sort of came together and now go our separate ways, but it's all worked very well.

I would -- and you'll hear from them during this meeting. I urge you to send questions if you're staying. You can direct them to me or you can direct them to any one of the other 3. And it will be a big relief to me if you direct a fair number to the other people.

So we -- this morning, as we always do, we always do it on Saturday, we published our 10-Q, which gave the quarterly earnings. It's up on our website, berkshirehathaway. com, and it's very interesting. We put these out on Saturday morning. That's not because the media likes us to do it that way, it's not because the analysts like to do it that way, but we want to give you the maximum time to digest an awful lot of information that's in that 10-Q. It can't be summarized in a perfect way. We'll give you some summary figures.

But they're really a student of the place, and most of our investors [run by] because they simply have faith in these other 3 fellows to do a good job. And it's not a misplaced faith.

But if you really enjoy going into the details and you want to understand the nuts and bolts of Berkshire Hathaway's various operations, you should read that 10-Q, and it will take you -- it may take you a couple of hours. I mean it's not a small investment of time, but it's got a lot of information about all our various businesses. And for those of you who are business students of a sort, I recommend you go to it.

The summary figures you see here, which are the ones we put in our press release, feel kind of an interesting pair of numbers I made down there at the bottom. We have -- last year, when you see those brackets surround numbers, you've got to start worrying. And first quarter, we actually showed a loss of almost $50 billion. I never thought I'd ever see a figure like that.

And I was thinking back I was trying to remember whether I'd gone on vacation during that quarter and turned things over to the other guys or what. But I checked the calendar, that was me. And that figure this year is a positive figure of $11.7 billion. And either figure is very meaningful in itself.

The Accounting Standards Board a few years ago for many, many, many, years unrealized gains or losses of a company like Berkshire, were made adjustments to the net worth of Berkshire, but they did not run through earnings. And a few years ago, the rule was changed so that every time the stocks go up or down, it goes through our earnings account. So in the first quarter of last year when stocks went down a lot, we had a huge sum of unrealized -- well, it was a reduction of unrealized gains largely. And when you start saying things like that, you start losing people. But that item is a mild plus this year.

But if you -- if we reported earnings daily, you would see earnings ONE day of $3 billion, next day of minus $2 billion, it's an accounting treatment that we don't think is particularly appropriate, but it's required. And we've explained very carefully, both in our press releases where we got to explain and I try to write in my letter and explain why I don't think that's the way to look at Berkshire. We think over time that we will have investment gains for reasons I laid out in my letter.

Over a period of time, the companies, we own stock in retain earnings. And they use those reinvested earnings, usually to our benefit and that shows up in capital gains someday. But reported earnings for a company that has a lot of common stocks, marketable stocks like ours, you don't want to look at that final line, and you do want to look at the operating earnings line.

Now I would say that if you were to take the first 2 months of last year and compare to the first 2 months of this year, those figures would have been quite comparable. But of course, in March of 2020, the economy will shut down in effect. I mean it was a self-induced recession and an abrupt one, very abrupt. And so kind of we went off the cliff in March, it was resurrected in an extraordinarily effective way by Federal Reserve action and later on the fiscal front by Congress, and we'll get into that later.

But the figure you see that the difference was March basically [of the two] . And our businesses have done -- we'll get into more specifics later. But our business has done really quite well. This has been a very, very, very unusual recession in that it's been localized as to industry to an extraordinary extent. And right now, business is really very good in great many segments of the economy, which we'll talk about later. But there are still problems if you are in a few types of business that have really been decimated such as international or travel or something of the sort.

So with that, well, we'll go back to the figures later on, perhaps in some of the questions. I would like to just go over 2 items that I would like particularly new entrants to the stock market to ponder just a bit before they try and do 30 or 40 trades a day in order to profit from what looks like an -- a very easy game.

So I would like to go to Slide L1, so put that up. And these -- on March 31, I ran off a list of the 20 largest companies in the world by stock market value. And those names, a good many of which you'll be familiar too, but they were led by Apple at slightly over $2 trillion. And it went down to the #20. It was worth $330-odd billion. But those are the 20 largest companies in the world by market value on March 31.

Now if I had a little -- I was hoping I could get a little quiz machine so I can have a way to weigh in on this answer, and we can flash up a little later, but technically impossible for -- but what I would like you to do is look at that list. Starts off with Apple. Saudi Aramco is a pretty kind of a specialized country -- company. It's -- I don't know whether it's 95% owned by the government or what, but it's essentially a country that's for sale in terms of that business. But the top -- of the top 6 companies, 5 of them are American. So when you hear people say that America hasn't -- it's not working very well or something the sort, in the whole world, of the 6 top companies in value, 5 of them are in the United States.

And if you think about it, we talked a little about this last year, but in 1790, we had half of 1% of the world's population. A little less, we had 4 million people, 3.9 million people, 600,000 of them were slaves. Ireland had more people than The United States had. Russia had 5x as many people as the U.S. And Ukraine had twice as many people as The United States. So here we were. What do we have? We had a map for the future, an aspirational map that somehow now only 200 -- well, after constitution, 232 years later, leaves us with 5 of the top 6 companies in the world. It's not an accident, and it's not because we were way smarter, way stronger and a good sort -- good soil, decent climate, but so do some of those other countries I named, and the system has worked unbelievably well. Just imagine, thinking of 5 of the top 6 companies in the world ending up with a country that started with half of 1% the population just a few hundred years ago.

But what I would like you to do is look at that list for a minute or 2 if you want to, and then make an estimate. Take your own guess. How many of those companies are going to be on the list 30 years from now. Here they are, these power houses. And how many would you guess are going to be out of the list? Well, it's not going to be 20. It may not even be all 20 today or tomorrow. This was March 31. But what would you guess? And think about that yourself. Would you put on 5, 8.

Well, whatever would be, I would now invite you to look at Slide 2 or L2, which goes back a little more than 30 years and look at the top 20 from 1989. And if you look at the top 20 from 1989, there's 2 things that we should grab your interest, at least 2. None of the 20 from 30 years ago are on the present list, none, 0. There were then 6 U.S. companies on the list, and their names are familiar to you, that -- we have General Electric, we have Exxon, IBM Corp, and these are -- they're still around. Merck has done their number. None made it to the list 30 years later or 0. And I would guess that very few of you, when I asked you to play the quiz a little -- a few minutes ago would have put down 0. And I don't think it will be 0. But it is a reminder of what extraordinary things are going to happen, things that seem obvious to you.

Japan had this wonderful bull market for a very long time. So we had a number of Japanese companies on the list. Today, there are none. And The United States had the 6, now we have 13, but they aren't the same 6.

I would invite you to think about one other thing as you look at this list. 1989 was not the Dark Ages. I mean we weren't just discovering capital or something or anything else. And people thought they knew a lot about the stock market and the efficient market theory was in. And there it was not a backward time. And if you look at the top company at that time, it had a market value of $100 billion, $104 billion.

So the "largest company in the world title" in just a shade over 30 years has gone from $100 billion to $2 trillion. At the bottom, the #20 has gone from $34 billion to something a little over 10x that.

Well, that tells you something about what's happened with equality, which is a hot subject in this country. It tells you a little bit about inflation, but this was not a highly inflationary period as a whole. But it tells you that capitalism has worked incredibly well, especially for the capitalists.

And it's a pretty astounding number. Do you think it could be repeated now that -- 30 years from now that you could take $2 trillion for Apple and multiply any company and come up with 30x that for the leader? Yes, it seems impossible and maybe it is impossible.

But just -- we were just so sure of ourselves as investors, and Wall Street was in 1989, as we are today. But the world can change in very, very dramatic ways.

And I'll just give you one other example you might ponder. This is -- if you start feeling too sure of yourself, one thing that shows incidentally is that -- it's a great argument for index funds is that the main thing to do is to board the ship -- a ship. They were all going to a better promised land. You used to know which the one they necessarily get on, but you couldn't help but do well if you just had a diversified group of equities, U.S. equity would be my preference, but to hold over a 30-year period. But if you thought you knew a lot about which ones to pick or the person that you had hiring -- you were paying a lot of money to have all these ideas, and they can tell you their best ideas in 1989 did not necessarily do that well, although overall, equities were absolutely the place to be.

Secondly, people get enormously attracted to various industries, I mean they think if you know -- if a company says it's in the XYZ industry and that's a popular one, you can sell IPOs, you can sell SPACs, you're going -- people disregard sales numbers, earnings numbers. They just -- it's the place to be.
So Berkshire Hathaway, what was the place to be in 1903 when -- my dad was born in 1903. But that wasn't really that big of news, but one big news was that actually Henry Ford was starting the Ford Motor Company, failed a couple of times before, but it was about to change the world. I mean the auto and when you think about everything, we've got a great auto insurance company. If not because of the autos, we wouldn't have GEICO. But it's transformed the country and report brought in the $5 daily wage and that was a huge thing, assembly lines, everything autos came along.

So let's just assume that you had seen a quick glance back in 1903 of all the interstate highways, 290 million vehicles on the road in the United States, everything about it and say, "Well, this is pretty easy. It's going to be cars. It can be autos." Well Berkshire, let's see what we've got up there. Yes. I'll say where you were. Go back. I don't want to change slides yet. The -- go back to the old. The Berkshire by accident, well, we own a company called Marmon. We bought it from the Pritzker family some years ago.

The Pritzkers had built this business from many, many, many companies that they had acquired. And the name of their company was Marmon. And I don't know exactly why Jay and Bob decided to name it Marmon, but they did own a company called Marmon. And the Marmon company had -- getting slightly ahead of me on the slides again, but that's okay. The -- we call it -- it was -- they owned this company, Marmon, which, in 1911, had been the company whose car won the first Indianapolis 500. Maybe that's why they called it Marmon. They were proud of the fact that the company in 1911 won the first Indianapolis 500. It also was the company that invented the rearview mirror. I'm not sure whether that was a big contribution to society, certainly around your household, you don't want to emphasize too much.

But the car that was entered in Indianapolis 500, the guy who normally said -- actually the driver and look backwards to tell what the competitors were doing. He was 6, so they invented the rearview mirrors.

So let's just assume that they decided that autos were this incredible thing and somebody they'd be in Indianapolis 500, and someday they had rearview mirrors on their cars, and someday 290 million cars will be buzzing around the United States or autos or the company trucks there. And so I decided to look at the history. And I thought I'd put up a list of auto companies from over the years.

And I was originally going to put up just the ones that were the Ms. So I could get them on one slide. But when I went to the Ms, it went on and on and on. So I just decided to put up the ones that started with MA, and as you can see, there were almost 40 companies that went into the auto business, just starting with MA, including our little -- our Marmon there in the middle column and which lasted for a while. Quite a while, but it was selling cars in 1930s, were really quite special.

But in any event, there were at least 2,000 companies that entered the auto business because it clearly had this incredible future. And of course, you remember that in 2009, there were 3 left, 2 of which went bankrupt. So there is a lot more to picking stocks than figuring out what's going to be a wonderful industry in the future.

The Maytag company put out a car, Allstate put out a car, DuPont put out a car. I mean Nebraska Motors -- everybody started car companies. Just like everybody is starting something now that can be -- or you can get money from people. But there were very, very, very few people that picked the winner and gets -- got the opportunity.

At Ford Motor, Henry Ford had a few partners and he really didn't like them. So he figured a way to buy them out. That was sort of the -- that was sort of the beginning of the auto finance. It's a long story, but we won't get into that. But you couldn't buy into Ford Motor. And of course, General Motors became the dominant company finally when Henry Ford did not really make the shift from the Model T to the Model A that did not work very well.
So I just want to tell you, it's not as easy as it sounds. And with that, we will go to Becky Quick, and she will ask any of the 4 of us questions she has selected and which we don't -- she doesn't share with us. And we will do this for a considerable period of time. You can be sending in questions to her. And then later on, after about 3.5 hours, we will have the Annual Meeting, which won't take long. So Becky, over to you.

Question and Answer

Becky Quick

Thanks, Warren, and hello to everybody. This first question that came in, came in from [Andy Cees.] He says he's the owner of not nearly enough B shares. He says, "Mr. Buffett, you're well known for saying to be fearful when others are greedy and be greedy when others are fearful. But by all appearances, Berkshire was fearful when others were most fearful in the early months of COVID, dumping airline stocks at or near the low, not taking advantage of the fear, gripping the market to buy shares of public companies at exceptional discounts and being hesitant to buy back significant amounts of Berkshire stock at very attractive prices. I'd appreciate hearing your thoughts surrounding this time and how Berkshire approached its decision-making, specifically after it was assured through the CARES Act that the government would provide a robust backstop to the financial markets."

Warren E. Buffett
Chairman, CEO & President

Well, of course, until both monetary and fiscal policy kicked in, well, you know we had an incredible problem. And I am -- just as Charlie is the Chief Culture Officer, I'm the Chief Risk Officer of Berkshire. That's my job. We hope we do well, but we want to make sure we don't do terribly. But we didn't sell a substantial amount.

I mean we are a company with 6 -- probably $700 billion worth of business is something we own and their entire deals, and some own a piece of them. And that we were sellers of maybe 1% of the value of all the businesses we had at that period. But the airline, it's just kind of interesting with the airline businesses, in particular, and then I'll get to what was done at fiscal monetary policy. But we had a few people, various subsidiaries of Berkshire that wanted to go in for help from the government.

And in some cases, they had minority shareholders own a few percent. And they said, "Well, we're going to get killed by what's happening when -- with the regulations that are being put out and we're the stopping the economy." And they said, "Everybody is going in form and why don't we go ahead?" I said, "Berkshire is going to handle that. This is for people that can't handle what's happening. So we're not applying."

But the airlines were the most prominent beneficiaries of what took place immediately. They got $25 billion initially, most of which went to the big 4 airlines and some of which went into as grants, not loans. And I think that was fine public policy. I think I was wishing it could go to every restaurant and dry cleaner and every small business that really was out of business and had no -- I mean they were made toast of basically.

But the airlines, clearly what happened was not their fault in any way, shape or form. It wasn't like 2008, '09 when people blamed the banks and hated to see them.

So it was -- now airlines operate in bankruptcy. So it isn't like that 3 of the 4 big ones that went through bankruptcy within the previous [time]. So the airlines, they were kind of used to operating in bankruptcy. They would have kept operating, but it was perfectly proper for the airlines to be helped.

The entire airline business -- you look at these figures of $2 trillion for Apple, so the entire big 4 airlines, they were -- they sold for about $100 billion almost. I mean it's very, very small. Combined, they wouldn't come close to making the cut. I mean they wouldn't be in the top 50.

So anyway, they went into the government. They needed the government help or they need -- or they would go bankrupt, some of them. And really the Congressman Steve Mnuchin told that they decided they deserve help, which I did not quarrel with at all. But imagine if Berkshire was the 10% holder, which they had been of every one of the airlines and said, take it up with Berkshire. It's to be like one of our -- they would have -- they might have very well have a very, very, very different result if they'd had a very, very, very rich shareholder that owned 8% or 9%, and they didn't have that, and they went in. So our -- you might not have gotten the same result. And I would think you probably wouldn't -- I mean I can just see the headlines now. I mean because you've seen the headlines on some companies that took $100 million or $200 and really didn't need it and some of them gave it back and most of them gave it back. But you were looking -- you were actually looking at probably a different result than if we kept their stock.

But in any event, an industry that was really selling for less than $100 billion lost significant amount of money. They lost prospective earning power. I mean right now, the international travel has not come back. But I would say, overall, to -- the economic recovery has gone far better than you could say with any insurance. So we didn't like how big as much money as we had in banks at that time. So I cut back to some of the bank investment. But basically, our net sales were about 1% or 1.5% and, looking back, a bit better to be buying. But I do not consider it a great moment in Berkshire's history, but also we've got more net worth than any company in the United States under accounting principles and we've got $600 billion or $700 billion of generally good businesses.

And I think the airline business has done better because we've sold, and I wish them well, but I still wouldn't want to buy the airline business, international. People really want to travel for personal reasons. And business travel isn't everything, and we've got a big exposure to business travel, of course, through the fact that we own 19% of American Express. And We own Precision gas parts, which services as the air business. So we still got a big investment in air travel, a big commitment to it. But we wish the big 4 the best. And I think their managements have done a very good job during this period.

Becky Quick

More specifically beyond the airlines, though, just the idea -- and this came from several questions, too, including one from [Chris Blaine,] just, "You spent years accumulating cash insisting you had your elephant gun ready. The March 2020 listed equity selloff came with promises from the U.S. government that they would do what it takes, yet you sat on your hands. Please help me understand what I missed."

Warren E. Buffett
Chairman, CEO & President

I didn't get quite the last part. What was the final question?

Becky Quick

"Just please help me understand what I missed. Why didn't you use more of the cash at hand?"

Warren E. Buffett
Chairman, CEO & President

Well, we have about -- as our cash on hand has been about 15% of our values of our businesses. And that's a healthy chunk. And I say I'll never get below $20 billion, but we're going to raise that number because it's just the size and importance of Berkshire is -- but we could have deployed $50 billion or $75 billion and right before the Fed Act, I mean we hit a point where the calls were -- 2 calls came in, but it was 2 or 3 days and nothing could happen. When Jay Powell acted as he did, that was incredibly important. I mean, I shouldn't say the Fed acted as they did, but they moved with speed and a decisiveness on March 23. That changed the situation where the economy had stopped. The government bond market was even disrupted.

Berkshire Hathaway probably could not have gone out with a debt offering. The day before that, was -- it didn't get a lot of publicity at the time, but there was a run on money market funds, a very substantial run. And if you look at the numbers, daily numbers on that, it was a repeat of September 2008. And this time, I give great credit to what Bernanke and Paulson did. But this time, the Fed knew that saying whatever it takes and saying it and demonstrating it, which they did on March 23. They took a market where Berkshire couldn't sell bonds on the day before and turned it into one word carnival -- cruise line or something sell it to a day or 2 later. And there was -- it's a record issuance of corporate debt and companies losing money, companies that were closed, whatever. It was the most dramatic move that you can imagine.

And at the time, as I remember the Chairman saying how about a little help on the fiscal front, and then Congress acted very, very big again. In 2008 and '09, they argued about -- we don't want to give any money to those banks, all that sort of thing. But this time, there really wasn't anybody to blame. So they saw what was necessary and Congress responded. So you had fiscal monetary policy that responded in a way that was incredible. And it did the job and it did -- I think it did a better job either the Fed or the treasury or anybody would expect.

I mean this economy right now is -- 85% of it is running a silver high gear and people can't -- and you're seeing some inflation and all that. It's responded in a global way. And we learned something out of 2008, '09 and then we applied. But I don't think it was a sure thing that would happen. And the one thing about Berkshire is we never want -- we don't want to depend on anybody. We're not a bank. We can't go to the Federal Reserves if we need money. And we've got to be sure that, under any circumstances, any circumstances, we can't solve nuclear war and maybe we can't. But Blanche Dubois, if you remember, in A Streetcar Named Desire said, "I depended on the kindness of strangers. " You can't depend on the kindness of your friends if things really stop. I mean I've seen that in several different places. And we were seeing it on March -- middle of March.

Everybody was drawing down their credit lines. The banks did not expect that. They just weren't sure they were going to be able to draw down their credit lines 10 days later. And so they just drew them down and they took the money out of the money market funds. We got very prompt. And I give great credit on both the monetary and fiscal side of what was done, but I didn't think it was a sure thing that would happen. I didn't know how it would be implemented. And it's worked -- I think it's worked better than just about anybody has expected. And I think -- well, you're seeing it now. Charlie has got some views on this, too. So we shouldn't leave him out of it.

Charles Thomas Munger
Former Executive Vice Chairman

Well, it's crazy to think anybody is going to be smart enough to hug the money and then just come out on the bottom tick in some crazy crisis and spend it all. There's always this some person that does that by accident. But that's too tough a standard. Anybody who expects that out of Berkshire the way is out of his mind.

Warren E. Buffett
Chairman, CEO & President

Yes, Charlie and I never were very good at dancing but we really get to that dance.

Charles Thomas Munger
Former Executive Vice Chairman

No, no, we can't. By the way, almost nobody else can either.

Warren E. Buffett
Chairman, CEO & President

Not with tens of billions or hundreds of billion. But it's worked out. Well, I -- we forgot to show one of the financial sides actually, if you go back to the balance sheet, but we did buy in, in the first -- you'll see the shares outstanding if we go back to, what is it, E3?

Becky Quick

E2.

Warren E. Buffett
Chairman, CEO & President

Slide. Pardon me?

Becky Quick

I think it's E2, isn't it?

Warren E. Buffett
Chairman, CEO & President

Well, it's the balance sheet. Yes, there it shows the shares outstanding at the bottom, and we have. We spent about $25 billion in the first quarter and more money since. And we -- it's the best thing. We can't buy companies as cheap as we can buy our own, and we can't buy stocks as cheap as we can buy our own. So -- and we've enabled that with a fair amount of money. But looking -- I mean if you -- definitely, we could have done better things. We would have sold the -- we would have sold airlines and cut back on banks regardless. Whether we should have bought something else at the same time, it's another question.

Becky Quick

This question comes from a long-term shareholder who's been here for more than 25 years. His name is [Ben Noel.] He's from Minneapolis, Minnesota. And he says, "Mr. Munger and Mr. Buffett, after a 15-year period of market underperformance, you're cautious about predicting Berkshire being able to outperform the market in the future. Given this, what do you see as the arguments for longtime shareholders to continue holding their stock versus diversifying their risk across an index?"

Warren E. Buffett
Chairman, CEO & President

Charlie, do you want to answer that?

Charles Thomas Munger
Former Executive Vice Chairman

Well, sure. Well, I personally prefer holding Berkshire than holding the market. So I'm quite comfortable holding Berkshire. I think our businesses are better than the average in the market.

Becky Quick

Is it because you don't think the market values it fairly?

Charles Thomas Munger
Former Executive Vice Chairman

Well, these are just accidents of history and things are fluctuating at all times. But on a composite basis, I'd bet on Berkshire over the market. That's assuming we're all dead.

Warren E. Buffett
Chairman, CEO & President

I recommend it. I recommend the S&P 500 Index Fund and had for a long, long time to people. And I've never recommended Berkshire to anybody because I don't want people to buy it because they think I'm tipping them into some time. Never. I mean no matter what I was selling for. And I made it public, on my death, there's a fund from my then widow and 90% will go into an S&P 500 Index Fund and 10% of treasury bills.

On the other hand, I'm very happy having my future contributions to a group of charities. It will be spread over 12 years or so after my death to stay in Berkshire. I think the odds are Berkshire is -- I like it, but I'm not -- I do not think the average person can pick stocks. We happen to have a large group of people that didn't pick stocks, but they picked Charlie and me to manage money for them 50 or 60 years ago.

And so we have a very unusual group of shareholders, I think, who look at Berkshire as a lifetime savings vehicle and one they don't have to think about and one that they'll -- if they don't look at it again for 10 or 20 years, that we'll have taken care of the money reasonably well. But that -- I wouldn't argue that S&P 500 over time would -- I'm perfect. I like Berkshire, but I think that the person who doesn't know anything about stocks at all and doesn't have any special feelings about Berkshire, I think they will buy the S&P 500 Index.

Becky Quick

As a follow-up to that, [Gerald Silver] writes in. He says, "The trustees of your estate to -- I believe you've directed the trustees of your estate to invest substantial assets into the index fund. Isn't that a vote of no confidence to your managers?"

Warren E. Buffett
Chairman, CEO & President

Well no, because we're talking about way less than 1% of my estate. And one thing I'm going to do, incidentally I mean all rich people get advised by their lawyers to set up a trust so that nobody can see your will and all that sort of thing. My will is going to be public record. And you can -- you'll be able to check at some point I'm telling you the truth about it. It's going to get done, but 99.7% roughly of my estate will either go to philanthropies or to the federal government.

And before it does that, I think Berkshire is a very good thing to hold. But for a given individual, particularly my wife, I just think that having a tiny fraction, which is all it takes for her to do very well for the rest of her life, I just -- I think that the best thing to do is buy 90% in an S&P 500 Index Fund. Now the index fund people naturally have started -- over the time, they market more and more products that go to other indices and everything. So they're really starting to say to the American public, they're saying, "Well, you can pick what continent to invest in or you can pick what industry, and we'll sell you something for that." And when they just have gotten through telling, you really don't know anything about stock. Just buy the whole index.

So I name the 500 index is one. But it's a tiny portion, but it will be her livelihood and she'll have all the money she needs and way beyond it, and that's that. And -- but the I don't mind having the 99.7%, a large portion of it, assuming that laws are the same as now, go to philanthropy to be kept in Berkshire until they finally are disposed of.

Becky Quick

This question comes from [Andrew Dickson] in the U.K. He says, "My question is in relation to the oil and gas business and your purchase of Chevron's stock. When being asked a question on tobacco stocks in 1997, you mentioned that individuals and companies occasionally have to draw more lines about what they're willing to do. You stated at the time that you were not comfortable in making a big commitment in tobacco stocks and that you are uncomfortable about their prospects. Charlie has also a reference passing up on a private tobacco deal that you both knew was a sense, yet you both have no regrets in saying no to the transaction.

I'm not suggesting that the oil and gas business has the same known negative externalities as cigarettes. They do not. With tobacco, the cause and effect relationship between the products and cancer is direct, obvious and measurable. With hydrocarbons, the societal costs and benefits are far more complex to evaluate. However, an increasing portion of society is drawing their lines in such a way that their painting does not include hydrocarbons period.

My question is, has the alarmism from the climate community now become pervasive across society to the extent it has become irrational. Have we built our own unrealistic consensus on the pace of change achievable with regards to the transition to greener energy sources to the extent that this is becoming an overly expensive tax warned by the current younger generation? Can we gather from your purchase of Chevron stock that you do not believe the hauling from society, regulators and politician will impair the prospects of hydrocarbons, and Chevron for that matter, in the next 10 years? Can investors still assume an oil and gas business that finds and produces oil at low cost per barrel can generate a sufficient return on capital for a long time to come?"

Warren E. Buffett
Chairman, CEO & President

Well, I'll give you a 10-word answer to that. I can't remember all the questions that were there. But I would say that people that are on the extremes of both sides are a little nuts. I would hate to have all hydrocarbons banned in 3 years or you wouldn't want a world that -- it wouldn't work. And on the other hand, what's happening will be adapted to over time just as we've adapted to all kinds of things. I do not think -- I'm interested from 1997 because we've talked about this before.

We have no problem owning Costco or Walmart and a substantial number of their stores and done. They sell cigarettes. It's a big item. It's something that brings people in. They know the price of cigarettes, and now they put them upfront. So we don't -- it's a very tough situation. We made that decision a long time ago when we went to Memphis. And we looked at a business that was a very, very good business, and it was much less harmful -- at least from everything I could find out. It was much less harmful than smoking tobacco, chewing tobacco was. And these were decent people. And they were running a legal business, and they all chew tobacco themselves. So they told me that their mother was 100 and chewing tobacco and all these things. But Charlie and I did go down in the lobby of that hotel, and we just said to ourselves this is probably the best business we've ever seen.

And I called my then son-in-law, Allen Greenberg, and he studied chewing tobacco and its effects when he was working for a nature related organization, and we decided not to do it. But would we -- I see -- I used to see ads in our paper from financial companies where I knew they were terrible. It's a very tough thing to decide, whether you get in or out of a business, it's a very tough time to decide what companies benefit society more than others. I mean it's -- I don't know whether -- I think Chevron's benefited society in all kinds of ways. I think it continues to do so, and I think we're going to have a lot of hydrocarbons for a long time and we'll be very glad we've got them. But I do think that the world is moving away from them too. And that could change. I don't like making the moral judgments on stocks in terms of actually running the businesses. But there's something about every business that you know what you wouldn't like.

[The meat packers around here don't throw me a pack in my entire life.] If you expect perfection in your spouse or your friends or in company, you're not going to find it. And what you would like to do yourself if you want an index fund, you're going to -- I mean Chevron is not an evil company in the least. And I have no compunction about owning -- in the least about owning Chevron. And if we own the entire business, I would not feel uncomfortable about being in that business. Charlie?

Charles Thomas Munger
Former Executive Vice Chairman

Well, I agree. You can imagine 2 things. A young man marries into your family. He's an English professor at say Swarthmore or he's -- he works for Chevron. Which would you pick? So I don't see. I want to admit, I'd take the guy from Chevron.

Warren E. Buffett
Chairman, CEO & President

Well, I hope your daughters agree with you.

Becky Quick

On the other side of that argument because there were lots of e-mails that came in both -- on both sides of these ESG questions. This one comes from [Christina Galgos,] who's been a shareholder since 2018. And she says, "On items 2 and 3 of the proxy materials, the Board recommended voting against on the shareholder proposal regarding the reporting of climate-related risks and opportunities as well as on the shareholder proposal regarding diversity and inclusion reporting. Berkshire is such a force for good when it comes to financial literacy and empowerment through wealth creation, why not be a force for good and an example when it comes to these very 2 important -- 2 very important issues? Please share with us more about the against recommendation."

Warren E. Buffett
Chairman, CEO & President

Well, I think maybe Greg can talk a little bit about what Berkshire has done as opposed to in terms of the environmental. I would say this. It's very interesting. With everything that's being really -- I think we have over 1 million shareholders. I mean you can't be 100% sure because of street name and duplicate accounts and all of that sort, but it certainly seems to be very, very likely. I've had and I get the letters that are written to me. I don't think I've had -- I only had 3 letters in the last year from shareholders. Now I have them -- and our vote on this, as you'll see later, is that, overwhelmingly, the people that bought Berkshire with their own money voted against those propositions. Most of the votes for where by -- came from people who had never put a dime of their own money into Berkshire. And so they -- And I don't think they read our annual reports. And I don't think they read the reports of Berkshire Hathaway Energy. And I don't think they know. If I talk about what we're doing in high-voltage transmission, we're doing more than any able company of the country.

The President talked about what the government is going to do and how important it is, and we have a record that's overall is incredibly good. But we have a group of organizations just generally, and they're nice people, but they want us to answer a bunch of questionnaires their way. So they want us to go to Dairy Queen and Borsheims, and all those people have them fill out reports that show a bunch of figures, when the reports that count are the reports that Greg gets on Berkshire Hathaway Energy and the railroad. And you talked about 3 of our companies, and you've covered 95% of it. And it's asinine, frankly, in my view.

Now we do some other asinine things because we're required to do them. So we'll do whatever is required. But to have the people as Businesswire, Dairy Queen, all these places [who got] reports to make it some common report that comes in, we don't do that stuff at Berkshire.

We've got -- during the pandemic, we probably have about 12 people that come into headquarters, and we've got 360,000 people working in a company that -- all kinds of diverse activities, and it's built -- I don't want to get in the whole thing. It's built on autonomy. And I am probably the only CEO of an S&P 500 company that does not get a consolidated income statement every month.

I mean every other company, I'll bet, in the S&P 500, prints out the earnings they had at the end from February and March, and CEO gets and a whole bunch of other people get it. I don't get it. I don't need it. And I could put 60 or 70 companies in a whole lot of trouble and everything. And they hand me something, and I know the answer to it already, and it doesn't make any difference. I mean they've got the money they need. So we don't do things just because we've got a department of this or a department of that, and we don't want to set up a lot of departments like that. And what's important is what we're doing in the, well -- primarily Berkshire Hathaway Energy and the railroad. I mean that's -- and I'll let Greg tell you about that in just 1 second. But the...

Charles Thomas Munger
Former Executive Vice Chairman

Well, I don't think we know the answer to all these questions about global warming and so forth. And when people ask the questions, think we know the answers. We're just more modest.

Warren E. Buffett
Chairman, CEO & President

Well, but even if we knew the answer, I mean, in terms of what we -- the reports, we would -- we would not collect a whole lot of things that don't mean anything to us and -- to satisfy people who actually don't own any stock themselves, and in many cases I can tell you haven't read our annual reports even. The -- we, as I pointed out in the annual report, and never -- nobody would have guessed that -- people think we're a bunch of guys who own stocks and all that sort of thing.

Berkshire Hathaway owns, by GAAP accounting, more property, plant, equipment, business infrastructure what the President just got through talking about Wednesday night, infrastructure, importance of it. We have, measured by GAAP accounting, more than any other company in the United States. We have more than any of those companies that are on the list of the largest companies in the country. But we've -- and we've got it by a substantial margin.

So we have an investment in what makes this country move and work. 15% of the interstate goods move on them, on our railroad. We're building transmission.

And we started in 2006 or '07 planning how we would close coal plants. But you can't close coal plants until you get the electricity from where it's generated to the customer. And if you're going to generate it in Wyoming, and it's going to go to Las Vegas or some place, and previously they had a coal plant near the place because that was the way it was done 50 years ago or 75 years ago, you better have the transmission. There's no sense having the wind blow in Wyoming and people trying to turn on the lights in Las Vegas.

So we went after the transmission plant question a lot earlier than they were talking about, and we've done -- we said $16 billion or whatever it was in the annual report that we're underway. And we just added $2 billion since the annual report came out. And there's no utility in the country that's coming anywhere close to that.

Tell them a little bit about it.

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

Sure, Warren. Thank you.

And really as Warren touched on, BHE and BNSF have our -- have the significant carbon footprints when you think of Berkshire. And Warren, you touched on the disclosure that we've provided in the past going all the way back to 2007. I did pull those 2 investor presentations, one from 2007 and then our most recent one in 2021. So if we could pull up BHE one the -- as a slide, I think it would just highlight going all the way back to 2007, we've been doing investor presentations for our -- what we call our fixed income investors. And we've done that through -- every year through 2021. We've provided very similar disclosures to our Board on an annual basis and had discussions around Berkshire Hathaway's Energy's plans to decarbonize.

Now it's interesting. If you go back to the 2007 fixed income conference, and we are having a conference at that point in time, we have third-party debt -- capital debt that our utilities raise. It's a traditional capital structure used across our regulated entities to manage our total cost to the customer. So we have investors. We present to them as we're highlighting on an annual basis. And if you go back to that 2007 investor conference, it's interesting. In that presentation, we're highlighting climate change, that it's a fundamental risk, and we discussed what good policy would be. We discussed innovation. We discussed market transformation and the importance of setting targets at that point in time. And we had recommendations for our industry.

And then since then, each year, we've presented really a plan and a strategy around how each of our businesses in BHE, but each of our regulated entities, how they're going to transform. And the whole transformation has been around decarbonization, managing that risk on behalf of our stakeholders in our many states, our customers that we serve and ultimately managing that risk for Berkshire Hathaway's shareholders.

Now as you go through those presentations, there's a common theme and Warren touched on it already. You have to build the foundation first. And that foundation is around building the high-voltage, the transmission system. Warren touched on it in his annual report this year. In the letter, he highlighted that at Berkshire Hathaway Energy, we will be spending just in the west $18 billion on transmission. $5 billion of that's already been spent as we sit here today. And that $13 billion will be spent over the next 10 years.

That's the foundation that then allows us to build incremental renewable resources and move it to our many states that we serve at Berkshire Hathaway Energy and well beyond that. I would highlight, while we've been building the transmission infrastructure in place, we have been building renewables. If you look at our investment through the end of 2020, we've invested $30 billion or in excess of $30 billion into renewables and have really completely changed the way our businesses do business. i.e. our utility businesses. They've been decarbonizing and delivering a valued product to our stakeholders, to our customers. And I think the results are really amazing when you look at them, and I'll give you a couple of reference points. If you go back to 2015, when the U.S. was discussing -- excuse me, joining the Paris agreement, very specific targets were set. Prior to those targets being set, Berkshire Hathaway Energy and 12 other companies, including the Apples of the world, Google, Walmart committed to Paris and that targets needed to be set. Berkshire Hathaway Energy was one of those companies in 2015.

Charles Thomas Munger
Former Executive Vice Chairman

Yes, how many other utilities were there?

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

Right. When there were no other energy companies that made any type of commitment at that point in time, I'm happy to report we made a variety of pledges. Well, one of them was, at that point, we'd invested $15 billion in renewables and that we would commit $30 billion in total, well, we far exceeded that total now. So there's been a clear commitment to reduce -- decarbonizing our businesses. We have focused on very identifiable, quantifiable outcomes, and I think that's very important.

If you look at the standards that were set with the -- or the original U.S. government's commitments associated with the Paris agreement, the target was 26% to 28% reductions in carbon footprints going back to 2005. So that's the reduction period through 2025. And they wanted the 26% to 28% reduction level. We committed to that at BHE, and I'm happy to report, wanting to brief our Board, we achieved that in 2020. So we met our pledge, and we met the commitment under the Paris agreement.

And then if you fast forward to the discussions that are occurring right now or have occurred around rejoining the Paris agreement, the current administration has proposed that, again, using 2005 as a starting point that the emission goals or reduction should be 50% to 52% by 2030. Again, I'm happy to brief to our shareholders, and briefings we've provided to our Board, but Berkshire Hathaway Energy will achieve that by 2030. Our reductions will hit the Paris agreement target. Again, the reason we can do it is we've built the foundation through transmission, the substantial investment that Warren has highlighted and then follow that up with very specific investments on the renewable side.

I have one incremental slide that I hope sort of pulls it all together, and that's BHE 2 because as people discuss carbon, they often go to coal units, how many you own, how many of you close, and there's no important -- there's no question that can be an important metric, but it is a transition. And we are very much focused across the 3 utilities we own and the ones we've highlighted on the slide, is to transition from our existing fleet to renewables using transmission. We have not become overly dependent on transitioning to gas. That's been a clear strategy. So over a period of time, our coal units will retire. I'm happy to report or pleased to report to our shareholders that through 2020, we've closed 16 units to date. If you look at from 2021 through 2030, there'll be an incremental 16 units closed. And then if you go through to the end of 2049, our remaining 14 units will be closed. And at that point in time, all our coal units are closed.

That slide is just an aggregation of all the activities, each of our business units have been taking to help facilitate that transition and really transitioning to decarbonizing those units, and I said decarbonizing our businesses on behalf of, first and foremost, our customers, the many stakeholders they represent in their -- in the various states; and then, equally important, decarbonizing those businesses on behalf of our Berkshire Hathaway shareholders.

The only other thing I would add, because it is the entity that has the second largest carbon footprint in Berkshire, and when you combine BNSF and BHE, you're talking the material set of emissions within Berkshire, BNSF has also been very active in managing their carbon profile. They've committed to have science-based targets established for 2030. So again, those targets will again be consistent with the Paris agreement. We've seen what the other participants or some of them in the class in our -- in the industry that have committed to. And our commitment will be very similar. It will be consistent with the Paris Agreement. But it will be a 30% reduction in BNSF's footprint by 2030. So again, if you look at our -- and that's been publicly disclosed, that's on the BNSF website. Everything I've discussed regarding BHE is on their website filed in 8-Ks completely accessible by our many shareholders. So when I look at it on -- from the perspective of our Berkshire shareholders, I really believe this risk is being well managed, and we are positioning ourselves for the long term. Thanks, Warren.

Warren E. Buffett
Chairman, CEO & President

Yes. Incidentally, I mean the President, the other night, talked about $100 billion for infrastructure. We'd love to spend $100 million But he was talking about transmission is really the problem. I mean, a big problem because you got to get from where the sun is shining and where the wind is blowing, essentially, to concentrations of population. And it will be -- whether the -- you cross state lines and you go through people's backyards. It's whether the federal government has better luck in just saying, this is the way it's going to be done and ramming it down the throats of where they go and getting it done, I mean they may have that power, and they'll be able to do it faster than we are. On the other hand, we'd love to do it. We'll spend $100 billion. But the speed at which we can do it is we bought Pacific Corp. in 2006, and we had a bunch of customers out in the far West and they had gold plants serving them. And to change that, you've got to be able to go to where wind blows and deliver it.

So it's -- but it is interesting that we have published this information. We spent far more than any utility in terms of renewables and transmission in the United States. And we started with nothing, little operation. But the people who bought the stock with their own money, the individuals, they seem to understand it. They read the reports. And we get calls and they say, "Well, we want to come out and talk to you about it. " Well, we're not talking to them and ignoring the million people that have been with us over time and bought it with their own money. We will not give special treatment to either to analysts or to institutions over the individuals that basically trust us with their savings for their lifetime.

Becky Quick

This question is for Warren and Ajit. It comes from [Fernando Lewis,] a longtime Berkshire shareholder from Panama who says, "As a shareholder that intends to remain so for many decades, my biggest concern is around possible losses arising from higher-than-expected insurance losses. We've seen this in other great companies, where underwriting mistakes end up crippling businesses previously considered exemplar.

While I understand that Berkshire's culture is unique and the insurance division is full of talented individuals, this is a risk that concerns me. Many of us shareholders feel comfortable now given the privilege of having Mr. Buffett, Mr. Munger and Mr. Jain looking at these deals. However, there will be a day when this is no longer the case. Is it reasonable to think that, over the long term, Berkshire should focus on playing vanilla short-tail insurance businesses like GEICO and reduce the size of some long-tail risk?

I want to clarify that I have the most respect and gratitude for all of Berkshire employees that have built the best insurance group in the world. I'm confident we have this talent to remain leaders in this field for decades to come. This is focused on the inherent opaqueness and risk of some insurance lines. "

Warren E. Buffett
Chairman, CEO & President

Ajit, do you want to lead off or...

Ajit Jain
Vice Chairman of Insurance Operations & Director

I mean clearly, contract certainty is an issue for us in the insurance industry. It is an issue that cuts across not only the long tail lines that you mentioned but even short-tail property focused lines. The most recent example is business interruption, which is an integral part of any property insurance policy that is bought and sold by corporations.

It is a risk every time we issue a contract that either because of sloppiness in terms of how that contract is written or because of the regulatory environment, we all have to live in that the words in the contract may be tortured to -- and normally, when they are tortured, they end up going against the insurance industry, not in their favor. So it is a risk, it's an unknown risk in terms of how bad it can be. I hope we price for it.

When we price for the product, we're throwing something for the unknown -- unknowns, if you will. And we try and aggregate our exposures by major risk categories.

Hopefully, that will give us some comfort in terms of having some boundaries on what the exposure really can be. But there's no question the regulators play a very important role in terms of the economics of the business, especially in the U.S. where the 50 state regulators who we have to deal with in terms of pricing, in terms of contracts, in terms of ...

Warren E. Buffett
Chairman, CEO & President

Most of those surprises in insurance, frankly all of them are unpleasant. I mean you get the premium up front, that's pleasant. And then from there on, you get some very imaginative losses that come through and you give something, you taken on. We are willing to lose in terms of sort of the outside limit. We think we're willing to lose $10 billion in a single event. And we want to get paid very appropriately for that. But we've got the resources to do it. And if -- but we don't want to lose $10 billion in something where we only thought we could lose $50 million or something like that. And the current situation, for example, with the Boy Scouts of America, they -- I think there were 1,100 claims or something like that, that have been filed and now they're 17,000 just in.

Ajit Jain
Vice Chairman of Insurance Operations & Director

No, no, they're close to 100,000, up by 50x.

Warren E. Buffett
Chairman, CEO & President

And these go back to 1950 or 1960 and you've got people advertising for claims, and so all of a sudden, you get a lot of. I'm sure a lot of the claims are valid. I'm sure a lot of them are invalid and how in the world you pick out the difference.

Ajit Jain
Vice Chairman of Insurance Operations & Director

Yes. And it goes back to the issue that you just raised. The reason why this number of claims have skyrocketed from less than 2,000 to close to 100,000 is because the statute of limitations have expired. But in several states, if not in most states, they have unilaterally extended the deadline by when you can make claims and expanded it by a few years as a result of which a lot of more claims have appeared funded by plaintiff players who are now very well funded. And that results in claims just skyrocketing.

Warren E. Buffett
Chairman, CEO & President

Yes. We get a lot of unpleasant surprises in insurance, but we've got a very -- I'm very biased on this, but I wouldn't -- I think we've got the best insurance operation in the world, and Ajit is the guy that created it and the people at GEICO. We bought that, and we did wonderful things over time. They contribute their part of that, too, and other people have. But Ajit is the symphony conductor of that.

Becky Quick

This question comes from [Henry Zu,] and he says, "It looks like Charlie and Warren have some different opinions recently, like Costco and Wells Fargo. Where is that taking Berkshire?"

Warren E. Buffett
Chairman, CEO & President

Charlie?

Charles Thomas Munger
Former Executive Vice Chairman

We're not all that different. And Costco is a company, I very much admire and I have enjoyed my long association with that company and -- but I love Berkshire, too. So and luckily, there is no conflict. And Warren I don't have to agree on every damn little thing we do. We've gotten along pretty well.

Warren E. Buffett
Chairman, CEO & President

We got better. We have never had an argument, 62 years. And it's not that we agree on everything. We literally, in 62 years, we've never gone mad at each other.

Charles Thomas Munger
Former Executive Vice Chairman

No, no.

Warren E. Buffett
Chairman, CEO & President

It doesn't happen.

Becky Quick

This question is from [Jason Planner,] and he says, "Mr. Jain and Mr. Abel, this question is for you. One of the successful features of Berkshire is the strong bond between Mr. Buffett and Mr. Munger, who managed the company better because they had each other. As you 2 are clear leaders of the next generation at Berkshire Hathaway, can you please tell us about how you interact with each other or some of the other incredibly competent Berkshire managers you seek for advice?"

Warren E. Buffett
Chairman, CEO & President

Who's that directed at?

Becky Quick

It's Greg and Ajit.

Warren E. Buffett
Chairman, CEO & President

Ajit, okay.

Ajit Jain
Vice Chairman of Insurance Operations & Director

Well, there's no question that the relationship Warren has with Charlie is unique, and it's not going to be duplicated, certainly not by me and Greg, no. I can't think of very many other pairs that can duplicate it. Nevertheless, both Greg and I, at least certainly from my perspective, and I'm sure Greg will speak for himself, we've known each other for a very long time. I certainly have a lot of respect, both at a professional level and a personal level in terms of what Greg's abilities are. We do not interact with each other as often as Warren and Charlie do. But every quarter, we will talk to each other about our respective businesses and update each other on our respective businesses.

And then during the course of the quarter, while we may not have any formal sort of meetings, if you will, but every time a question comes up, which is related to insurance, Greg will pick up the phone and call me. By the same token, if there's any question that comes up relating to any of the noninsurance operations that Greg is in charge of, like we had recently where a client of mine is looking for trying to find a buyer, and I picked up the phone and talked to Greg, and we talked about how best to proceed. So there's -- that happens during the course of the quarter. Every quarter, we exchange notes. And we have a perfectly well-functioning relationship between the 2 of us, and I hope it remains that way. Greg?

Gregory Edward Abel

Vice Chairman of Non Insurance Operations & Director

Yes. Well, Ajit, well said. And as he touched on, Warren and Charlie have an exceptional relationship. But I'm very proud of the relationship Ajit and I've had. And as Ajit touched on, it's developed over many years, we've had the opportunity to -- or I've seen the -- had the opportunity to see Ajit run the insurance business. And as Warren highlights and Charlie highlights, there's no one better at it. So I've had the opportunity to observe that. And then equally, over the years, that relationship is just built and become greater and greater and as Ajit touched on, I kind of have more personal respect for it, both personally and professionally.

And even though the interaction may be different than, say, how Warren and Charlie do it, as Ajit touched on, there is a regular dialogue both around opportunities within our 2 businesses and units, both -- if we see something unusual that the other individual should hear, we make sure we're always following up with each other. But it goes beyond that. Ajit has a great understanding of the Berkshire culture. I strongly believe I do too. And anytime we see anything unusual in one of our businesses, it's Ajit who I'm going to call and say, are you comfortable that we're taking this approach? Is it going to be consistent with how you think about it, how you think about it in insurance? So it goes beyond just discussing the businesses, but that maintaining the exceptional culture we have at Berkshire and building upon that. So very fortunate to have Ajit as a colleague and I immensely enjoy working with him every day. Thank you.

Becky Quick

This question comes from [Glenn Greenberg.] He says -- it's on the profitability of GEICO and BNSF. He said, "Why do these companies operate at meaningfully lower profit margins than their main competitors, Progressive and Union Pacific. Can we expect current managements to at least achieve parity?"

Warren E. Buffett
Chairman, CEO & President

Was it GEICO and...

Becky Quick

BNSF.

Warren E. Buffett
Chairman, CEO & President

Actually, when you -- if you look at the first quarter figures, you'll see that The Berkshire Hathaway Union Pacific comparison has got quite better. Katie Farmer's doing an incredible job at BNSF. And an interesting question, whether 5 years from now or 10 years from now, BNSF or Union Pacific has the higher earnings.

We've had higher earnings in the past than Union Pacific in the past. The first quarter you can look at and they think they've got a slightly better franchise. We think we've got a slightly better franchise. We know we're larger than the Union Pacific. I mean we will do more business than they do. And we should make a little more money than they do, but we have in the last few years. But it's quite a railroad. I feel very good about that. I should go back to the previous question.

People talk about the aging management at Berkshire. I always assume they're talking about Charlie, when they say that. But I would like to point out that in 3 more years, Charlie will be aging at 1% a year. And he is -- no one is aging less than Charlie. If you could take some of these new companies with 25-year-olds, they're aging at 4% a year. So we will have the slowest aging management percentage-wise by far that any corporate -- that any American company has.

Becky Quick

Did you want to talk about GEICO versus Progressive too? Because I got a lot of questions on that.

Warren E. Buffett
Chairman, CEO & President

Progress in recent -- Progressive has had the best operation in the last -- in recent years in terms of matching rate to risk. And I mean that's what insurance is all about, among other things. But I mean you have to have the right rate. If you think that 90-year-olds and 20-year-olds have an equal chance of dying, I mean you're going to be out of business very quickly with the life insurance business. And you will get all the 90-year-old risks and the other guy will get the 20-year-old risks. And the same thing applies in auto insurance. I mean there is a huge difference between 16-year-old males and how they drive and 40-year-old married employed people. It's -- so the companies that do the best job of actually having the appropriate rate for every one of their policyholders, is going to do very well. And Progressive has done a very good job on that, we're doing a much better job on that already, but Todd Combs has gone there. And it's a very interesting business.

Both Progressive and GEICO were started in the 30s. I believe I'm right about Progressive on that and we were started in '36. We have had the better product for a long, long time, I mean in terms of cost. And here we are 85 years later, in our case, and we have about 13% or so of the market, whatever it may be in Progressive. That's just a slight bit less. So the total is a 25% market roughly. And there's huge market after 80-some-years of having a better product. So it's a very slow changing competitive situation, but Progressive has done a very, very good job recently.

We've done a very, very good job over the years, and we're doing a good job now, but we have made some very significant improvements. And if you looked at the -- though I don't look at the quarters too much, but our profitability in the first quarter was good. But we gave back more money under our give-back arrangement when the virus broke out. We gave $2.8 billion on our give-back program that was larger than any company as well. It was the largest, I think, in the country. And GEICO and Progressive are both going to do very well in the future. And actually, the Union Pacific and BNSF are going to do well in the future. It's just -- in both cases, we want to do a little bit better than the other guy.

Ajit Jain
Vice Chairman of Insurance Operations & Director

Can I just add a little bit? Yes, there's no question Progressive is a machine. They're very good at what they do, but it's underwriting, which Warren talked about in terms of matching rate to risk whether it's adding new claims. Having said that, I think GEICO is catching up with Progressive. More than a year ago, about a year ago, Progressive had margins that were almost twice as much as GEICO's, and growth rates that were almost twice as much as glycol. If you look at the results as of now, Progressive is still crushing it in terms of growth relative to GEICO. But GEICO has certainly caught up with progressive in terms of margins. And hopefully, that gap will be nonexistent in the future.

The second point I want to make on the issue of matching rate to risk, GEICO had clearly missed the bus and were late in terms of appreciating the value of telematics. They have woken up to the fact that telematics plays a big role in matching rate to risk. They have a number of initiatives, and hopefully, they will see the light of day before not too long, and that will allow them to catch up with their competitors in terms of the issue of matching rate to risk.

Warren E. Buffett
Chairman, CEO & President

I will predict that 5 years from now, State Farm is still the largest auto insurer, but I will predict that 5 years from now, it's very likely that the top 2 will be GEICO and Progressive. I don't know which order, we'll see. But both companies are going to do very well, in my opinion. Well, and they -- GEICO has done well -- extremely well, but Progressive was better at setting the right rate. And we're catching up, I think, fairly fast.

Ajit Jain
Vice Chairman of Insurance Operations & Director

Yes -- excuse me. Progressive has certainly done better. But when it comes to branding, GEICO is -- I think miles ahead of Progressive. And in terms of managing expenses as well, I think GEICO does a much better job than anyone else in the industry.

Becky Quick

This question comes from [Victoria Ghalichi] from Switzerland who writes in, "Why in the recent past did Berkshire sell some of the common stocks owned on Apple? If the company is considered Berkshire's fourth jewel, why didn't Berkshire buy more of Apple stocks in 2020? This seems to be counterintuitive."

Warren E. Buffett
Chairman, CEO & President

Well, we have 5.3% or something like that. Now it's going up in the first quarter because we bought in our shares, which helps our own shareholders expand their interest in Apple indirectly without laying out a penny. And then Apple's repurchased its shares and just announced another repurchase program.

So let's say, we look at Apple, the business that we own of 5.3%. Now we've got -- it's a marketable security. So it shows up as way greater than any other marketable security we have. But of course, if you look at our railroad, we mentioned -- well, Union Pacific is selling for about $150 billion in the market. We own one that's a little larger than the Union Pacific and making a little less money but not much less.

So it's an extraordinarily Apple. It's got a fantastic manager. Tim Cook was underappreciated for a while. He's one of the best managers in the world, and I've seen a lot of managers. And he's got a product that people absolutely love. And there's an installed base of people, and they get satisfaction rates of 99%. And I get the figures from the Furniture Mart as to what's being sold. And if people come in and they want an Android phone, they want an Android phone, they want Apple -- they want an Apple phone, you can't sell them the other one.

I mean the brand and the product is -- it's an incredible product. So a huge, huge bargain to people. I mean, the part that plays in their lives is huge. I use it as a phone, but I'm not the only guy in the country. Maybe some descendant of Alexander Graham Bell is doing the same thing. But it is indispensable to people. And it costs $35,000.

And I'm sure some people, if you ask them whether they want to give up -- had to give up their Apple or give up the -- give up their car and really make the choice for the next 5 years, who knows what they do? But it is -- and we've got a chance to buy it. And I sold some stock last year, although our shareholders still have their percentage interest go up because we repurchase shares. But that was probably a mistake. In fact, Charlie, in his usual low key way, let me know -- you thought it was a mistake too, didn't you, Charlie?

Charles Thomas Munger
Former Executive Vice Chairman

Yes.

Warren E. Buffett
Chairman, CEO & President

Yes. I can only do so many things that I can get away with, Charlie. And I kind of use them up between Costco and Apple. So and he's probably bought them. He very likely was right in both circumstances. It's an extraordinary business. But I do want to emphasize that in his own way. It's a different way, but Tim Cook is, we see a lot of managers of a lot of businesses, and you're looking at 2 great ones on the both ends here. He's handled that business so well, he couldn't do what Steve Jobs obviously could do in terms of creation. But I don't -- but Steve Jobs couldn't really -- I don't think, do what Tim Cook has done in many respects.

Charles Thomas Munger
Former Executive Vice Chairman

Well, I also think it's clear that, that list you showed of the leading American companies, it's been very important for America that we've done so well in this new tech field. And I personally would not like to see our present giants brought down to some low level based on any competitive reasoning. I don't think they're doing a lot of harm to any competitor. I think they're a credit to the market, credit to our civilization.

Warren E. Buffett
Chairman, CEO & President

And they're huge.

Charles Thomas Munger
Former Executive Vice Chairman

And they're huge, and that's good for us.

Becky Quick

Well, let me ask a follow-up question on that then. This comes from [Jack Singh] who says, "What's your mindset when you see so many of these high flyers? Not the GME or meme stocks, but more like the big tech growth stocks gaining 50%, 100%, 200%, et cetera in a matter of a year or less.

I know you eventually bought Apple in 2016 because of the quality of their businesses and their management. How do you assess if these high flyers are worthy of your investment, given this crazy high valuations that muddy the waters?"

Warren E. Buffett
Chairman, CEO & President

But we don't think they're crazy. The -- but we don't -- like Charlie, I feel that I understand Apple and its future with consumers around the world better than I understand some of the others. But I don't regard price as -- and that gets back -- well, it gets back to something fundamental on investments. I mean interest rates basically are to the value of assets, what gravity is to matter essentially.

And on the way out here, I saw a little clipping from the Wall Street Journal yesterday. I'm probably the only one that read it. It's so small, and I'm having trouble finding it.

But anyway, yes on Thursday, the U.S. Treasury sold some 8-week -- some 4-week notes, Treasury bills. The price was in -- if you look at your Wall Street Journal down a little corner next to last page in my paper, in the very bottom corner, the -- here it is, the results of the Treasury auction, a little tiny thing. They sold for -- they had applications on a 4-week Treasury bill for 100-some billion. They accepted bids for $43 billion worth. And it says average price, 100.000000, 6 zeros. And essentially, people were giving $40 billion-some to the Treasury, and they offered to get about $130 billion or something, whatever the amount tendered.

The Treasury received the money at 0. And Janet Yellen has talked a couple of times about the reduced carrying cost of the debt. I think in the last fiscal quarter, U.S. Treasury which -- U.S. government which [sold] a few billions -- a few trillion dollars, I should say, a few trillion dollars more than a year ago, their interest expense was down 8%. So you've had this incredible reduction in the so-called super risk-free group, the short-term Treasury bill, and that is the yardstick against which other values are measured.

I mean if I could reduce gravity, its pull by about 80%, I mean I'd be in the Tokyo Olympics jumping. And essentially if interest rates were 10%, valuations are muddier. So you've had this incredible change in the valuation of everything that produces money, because the risk-free rate produces really short enough right now, nothing.

It's very interesting. I brought this book along because for 25 or more years, Paul Samuelson's book was the definitive book on economics. It was taught in every school.

And Paul was the first -- was the first Nobel Prize winner -- It's sort of a cousin to the Nobel Prize they started giving in economics I think in the late '60s. He was the first winner from the United States, Paul Samuelson.

Amazingly enough, the second winner was Ken Arrow. And both of them are the uncles of Larry Summers. Larry Summers had the first 2 winners as uncles.

But Paul, he was a wonderful, wonderful writer, the definitive writer. And so I got up to 73 economics books. And bear in mind, probably economics kind of started as kind of an interesting science. And with Adam Smith who -- he wrote The Wealth of Nations in 1776. He had written some books earlier. But it sort of dated from kind of when our country started. And you had all these famous economists subsequently, and Paul became the most famous of his time.

So I looked up in the back. Under interest rates, I looked for negative interest rates. There's nothing there. So I finally found 0 interest rates. And Paul Samuelson, brilliant man, after a couple of hundred years he's had kind of studying economics basically, he said that you can conceivably, technically, he said you can conceive perhaps of negative interest rates, but it can't ever really happen. And that was in 1970s. This wasn't back in the Dark Ages. And this was -- and no economist wrote up and said, "This is a terrible line to have in a book really."

And here we are in this world where we had 0 interest rates last year -- I mean last week -- or this week on the 4-week note. And Berkshire Hathaway, which had a -- has more than this, but let's say we have $100 billion in Treasury bills. We have more than that.

Before the epidemic -- pandemic, we were getting about 1.5 billion from that a year. At present rates if it's 2 basis points, we get 20 million. Imagine your wage is going from $15 an hour to $0.20 an hour.

So it's been a sea change, and it was designed to be that. I mean it was -- that's why the Fed moved the way they did. They wanted to give a massive push just like Mario Draghi did in Europe in whenever it was, 2012 when he says "whatever it takes." And they went to negative rates. And The Fed have said it doesn't want to go to negative rates. And I think the Treasury actually has got some small [bar].

But if present rates were destined to be appropriate, if the 10-year should really be at the price it is, those companies that are mentioned in this question, they're a bargain. I mean they have the ability to deliver cash at a rate that if you discount it back and you're discounting to get present interest rates, stocks are very, very cheap.

Now the question is what interest rates do over time. But there's a view of what interest rates will be based in the yield curve after 30 years and so on. It's a fascinating time. We've never really seen what shoveling money in on the basis that we're doing it on a fiscal basis while following a monetary policy of something close to 0 interest rates, and it is enormously pleasant.

But in economics, there's one thing always to remember. You can never do one thing. You always have to say, "And then what?"

And we are sending out huge sums. I mean the President said it on Wednesday, 85% of the people were going to get a $1,400 check, 85%. And a couple of years ago, we were saying 40% of the people couldn't -- never could come up with $400 of cash. So we've got 85% of the people getting those sums. And so far, we've had no unpleasant consequences from it. I mean people feel better. The people who get the money feel better.

And people who are lending money don't feel very good, but it causes stocks to go up. It causes business to flourish. It causes an electorate to be happy.

And we'll see if it causes anything else. And if it doesn't cause anything else, you can count on it continuing in a very big way.

But there are consequences, everything in economics. That is why the Googles and the Apples -- we don't own Google, we don't own Microsoft, but they are incredible companies in terms of what they earn on capital. They don't require a lot of capital, and they gush out more money.

And if you're trying to find bonds at gush-out market, more money from the federal government, we got $100 billion that's gushing out, like $30 million or $40 million a year or whatever it may be, depending on the short-term rates. So that puts the pressure on, which is exactly of course what the monetary authorities want. I mean that's -- they're pushing the economy in a -- they're doing in Europe even more extreme. And they're pushing and aiding it with fiscal policy.

And people feel good. And people will become numb to numbers. Trillions don't mean anything to anybody, but -- and $1,400 does mean something to them. So we'll see where it all leads, but it's -- Charlie and I consider it the most interesting movie by far we've ever seen in terms of economics.

Charles Thomas Munger
Former Executive Vice Chairman

Yes. And the professional economists, of course, have been very surprised by what's happened. It reminds me of what Churchill said about Clement Atlee. He said he was a very modest man, and he had a great deal to be modest about.

And that's exactly what's happened with the professional economists. They were so confident about everything. It turns out the world is more complicated than they thought.

Becky Quick

As a follow-up to that, [Pat Cane] wrote in, "What's your opinion about the economic theory MMT? Especially in the United States because it's the reserve currency for the world."

Charles Thomas Munger
Former Executive Vice Chairman

Well, I think they are more -- I think the modern monetary theorists are more confident than they ought to be too. I don't think any of us know what's going to happen with this stuff.

I do think there's a good chance that this extreme conduct is more feasible than everybody thought. But I do know if you keep just doing it without any limit, that it will end in disaster.

Becky Quick

On a related question, [Al Candel] wrote in on this too and said, "If you can borrow money at a guaranteed low or even 0 interest rate, is it still worthy of borrowing money for not-that-guaranteed cost from the insurance operation?"

Warren E. Buffett
Chairman, CEO & President

It reduces the value of float by a substantial amount. And we have flexibility with our float that virtually no one has -- and I've written about this in the annual letter. But the value of float has gone down dramatically because everything is off of interest rates. And when you get to negative interest rates, the country can borrow at negative interest rates, you get into something is kind of akin to the St. Petersburg paradox.

And those of you who want to go to search, you can find some interesting things on it. But it becomes infinite. It's a crazy consequence of bunch of abstract mathematics before you get there.

But you lose gravity entirely. And if you tell me I'm going to have to lend money to the government at minus 2% a year, and I'm talking nominal figures, not -- you're just telling me I'll go broke over time if I do that. So it pushes you to do other things.

And of course, we've seen it. Well, we saw the rest of the world go in even more extreme fashion. But nobody; Paul Samuelson, brilliant man, nobody thought you could do this. And we don't really know what the consequences are, but we know there are consequences obviously.

Becky Quick

This question comes from [Sam Butler,] who says he's been a shareholder for many years and asks, "What impact does the rise of so many new SPACs have on Berkshire's ability to find and close new acquisitions?"

Warren E. Buffett
Chairman, CEO & President

Well, it's a killer. These SPACs generally have to spend their money in 2 years, as I understand it. So they have to buy a business in 2 years.

If you put a gun to my head and said, "You got to buy a big business in 2 years," I'd buy one, but it wouldn't be much of one.

We look and look. And now there are, I don't know how many, whether it's hundreds.

And there's always been the pressure from private equity funds. I mean if you're running money for somebody else and you're getting paid a fee, and you get the upside and you don't have the downside, you're going to buy something.

And I could tell you, but I had a very famous -- I had a call from a very famous figure many years ago that was involved in it and wanted to learn about reinsurance. And I said, "Well, I don't really think it's a very good business. And he said, "Yes." He said, "If I don't spend this money in 6 months, I've got to give it back to the investors."

So it's a different equation that you have if you're working with other people's money where you get the upside, and you have to give it back to them if you don't do something. And frankly, we're not competitive with that.

And that won't go on forever. But it's where the money is now, and Walls Street goes where the money is. And it does anything basically that works.

And SPACs have been working for a while. And you secure a famous name on it, you can sell almost anything. It's an exaggerated version of what we've seen in kind of well, gambling don type market.

In fact, I did have a quote from Keynes that we might put up on the -- let's see if I've got -- yes, this is probably one of the most famous quotes in history because it really sums up the problem of the fact we've got the greatest markets the world could ever imagine.

I mean imagine being able to own parts of the biggest businesses in the world and putting billions of dollars in them and take it out 2 days later. I mean compared to farms or apartment houses or office buildings where it takes months to close a deal, the markets offer a chance to participate and invest in earning assets on a basis that's very, very low cost, instantaneous, huge, all kinds of good things. But it makes its real money if they can get the gamblers to come in, because they provide more action and they're willing to pay sillier fees and all kinds of things.

So you have this incredible huge asset to humanity, but it really makes us money when people are doing stupid things. I mean that's where the money is.

And Keynes wrote this in 1936. It says 1939 on the slide, but he wrote in 1936 in The General Theory that, "Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of the country becomes a by-product of the activities of a casino, the job is likely to be ill-done."

Well, the stock market, we've had a lot of people in the casino in the last year. You have millions and billions of people have set up accounts where they trade, where they're selling puts and calls, where they -- I would say that you have the greatest increase in the number of gamblers essentially, and there's nothing wrong with gambling. And they got better odds than they've got to play the state lottery, but they've have cash in their pocket. They've had action, and they actually -- they have a lot of good results. And if they just bought stocks, they do find and held them.

But the gambling impulse is very strong in people worldwide, and occasionally it gets an enormous shove. And conditions lead to this place where more people are entering the casino than are leaving every day, and that creates its own reality for a while. And nobody tells you when the clock is going to strike 12 and it all turns to pumpkins and mice.

But when the competition is playing with other people's money or whether they -- and if they're paying foolishly with their own money, but the big stuff is done with other people's money, they're going to beat us. I mean we're not -- that's a different game, and they've got a lot of money.

So we're not going to have much luck on acquisitions while this sort of a period continues. But it's happened before. This is about as extreme as we've seen it, isn't it, Charlie, or..

Charles Thomas Munger
Former Executive Vice Chairman

Yes. Of course, I call it, fee-driven buying. In other words, they're not buying because it's a good investment. They're buying it because the adviser gets a fee. And of course, the more of that you get, the sillier your civilization is getting.

And to some extent, it's a moral failing too. Because the easy money made by things like SPACs and total -- return derivatives and so on and so on, you push that to excess, it causes horrible problems with civilization. It reflects no credit on the people who are doing it and no credit on the regulators and monitors that will allow it. So I think we have a lot to be ashamed of current conditions.

Warren E. Buffett
Chairman, CEO & President

But it's where the money is.

Charles Thomas Munger
Former Executive Vice Chairman

Yes, but it's still -- it's shameful what's going on, yes. It's not just stupid, it's shameful.

Warren E. Buffett
Chairman, CEO & President

It's not -- I don't regard as shameful a lot of the people that gamble. I mean gambling is a very human instinct, and they've got money in their pocket. And they know somebody else has made money who they don't think is any smarter than they are...

Charles Thomas Munger
Former Executive Vice Chairman

No, I don't mind the poor fish that gamble. I don't like the professionals that take the suckers.

Becky Quick

All right. [Mosy Levine] writes in. He's an American living in Israel. He says, "If you deem stock prices to be overvalued or in a bubble, do you think it's best to keep your money in cash while waiting for prices to come down to a fair price? Or would it be a better idea to invest this money in some way while waiting until stock prices are fair again, and then sell the investment to buy the stocks?"

Warren E. Buffett
Chairman, CEO & President

Well, Charlie and I have had that discussion on a lot of things. We bought some stocks we really don't know that much about, but I'm not really comfortable doing that.

Charles Thomas Munger
Former Executive Vice Chairman

We're used to shooting fish in a barrel, but that's gotten harder.

Warren E. Buffett
Chairman, CEO & President

We've got probably 10% to 15% of our total assets in cash beyond what I would like to have, just as a way of protecting the owners and the people that are our partners from ever having -- having us ever get in a pickle. We really run [far] to make sure that -- we don't want to lose other people's money who will stick with us for years. We can't help it if somebody buys it today and sells it tomorrow. But we've got a real gene that pushes us in that direction.

But we've got more than we -- we've got probably 70 billion or 80 billion, something like that maybe, that we'd love to put to work. But that's 10% of our assets roughly. And we probably won't -- we won't get a chance to do it under these conditions, but conditions change very, very, very rapidly sometimes in markets.

And we do have people that would like to join us, but the market option they have is just too great for them. If they're publicly traded, I mean they basically can't -- they would have great difficultly. Well, than making a deal with us because somebody else would come along with using other people's money.

Is -- we may be unhappy about the 70 billion, but we're very happy about the other 700 million. So it's not like we should complain.

Becky Quick

Warren, when we spoke before the annual meeting, you said that it was okay if I asked a follow-up or two, and I'd like to ask one of those right now.

Warren E. Buffett
Chairman, CEO & President

Sure.

Becky Quick

You said you bought some stocks that you don't know a lot about. What are they?

Warren E. Buffett
Chairman, CEO & President

Well, I will not get into naming them. So I said -- and maybe that there's some there that I think I know about, that I don't know about. But we have bought stocks where Charlie and I, I mean we know the business generally, but we don't have any insights.

And they are as a group, if I had to -- if you tell me I was going to be shot unless I got the best result, I would rather own those stocks than the Treasury bills we own.

But on the other hand, we work with the quantities of money where if we put 50 billion on things that I'm kind of so-so about but that are better than Treasury bills, it doesn't -- I'm not wildly comfortable about that even though it can be undone. Selling 50 billion when it's really attractive to buy something else, there's a lot of slippage that are going to happen in moving something like that around.

So that's something we talk about all the time. They're good companies. They're fine companies. But do we know something about those companies or have a way of evaluating that gives us an edge is the answer, I think.

What do you feel about, Charlie? We've talked about it a lot.

Charles Thomas Munger
Former Executive Vice Chairman

Well, of course, it's a lot harder. And I think one consequence of this present situation is that Bernie Sanders has basically won. And that's because the -- with the -- everything boomed off so high and interest rate's so low, what's going to happen is the millennial generation is going to have a hell of a time getting rich compared to our generation. And so the difference between the rich and the poor in the generation that's rising is going to be a lot less.

So Bernie has won. He did it by accident, but he won.

Becky Quick

All right. This question comes from [Denny Poland,] a shareholder from Pittsburgh. "A prominent senator recently categorized share buybacks as a form of market manipulation. You've often said that repurchasing shares at prices below intrinsic value benefits continuing shareholders. Could you entirely please elaborate on the higher order effect that these share repurchases have on society?"

Warren E. Buffett
Chairman, CEO & President

Yes, they're a way essentially of distributing cash to the people that want the cash when other co-owners mostly want you to reinvest, and it's a savings vehicle. If the 4 of us so sitting in this table decided we'd buy a few Dairy Queen franchises, we'd form a little company and we'd all put in $1 million or something like that. And we'd buy the Dairy Queen franchises, and they're doing well.

And 3 of the 4 of us want to keep buying more Dairy Queen franchises, and we're not done building and saving for the future and we're in the wealth creation business. And the fourth one says, "Listen, I've gotten rich enough. I'd rather take some money out."

And well, there's only 2 ways to do it. We can pay dividends to all 4 of us, 3 of us of whom don't want to it. And we can repurchase the shares at a fair price. If it's just the 4 of us, we pick out a fair price. And the fourth one gets bought out of his interest.

I find it almost impossible to believe some of the arguments that are made that it's terrible to repurchase shares from a partner if they want to get out of something. And you're able to do it at price that's advantageous to the people that are staying, and it helps slightly the person that wants out.

And a majority of the Berkshire share owners, a great majority, we had a vote on dividends one time. We've got savers. Now that's partly because we've advertised ourselves as being that sort of a vehicle. We've created that something. We've stuck with it for 50-something years. And people look -- individuals, huge number, look at Berkshire as something they're going to own till they die.

Now their circumstances may change, their need may change, but the savers generally keep saving. We just recently had somebody that bought and came with us 60 years ago in billions of dollars. And they just -- they weren't saving exactly for their old age. It was just sort of built into them that they like to do it. Now lots of people will get a lot of money and so on.

And it's the most -- what could be more logical than if a very small minority of your holders want to get out, and most of them want to stay in? And the person who wants to get out wants the money. You don't give the money to everybody, you give it to the one who wants it. And you do it at a price that is beneficial to most partners.

On a private deal, you'd work out the fair value. The market tells you the value in the case of a publicly traded company. Charlie, you got anything?

Charles Thomas Munger
Former Executive Vice Chairman

Well, I -- if you're repurchasing stock just to pull it higher, it's deeply immoral. But if you're repurchasing stock because it's a fair thing to do in the interest of your existing shareholders, it's a highly moral act. And the people who are criticizing it are bonkers.

Becky Quick

Okay, this comes from [Gary Gambino.] He wants to know if Berkshire would switch its capital return policy to dividends from buybacks. If the capital gains rate goes up to 43.4%, dividends would be far more tax advantaged for shareholders under that scenario.

Warren E. Buffett

Chairman, CEO & President

Yes, we had -- we literally did have a vote by our shareholders. Now we've got a different group of shareholders. And a REIT would have, or an MLP might have, I mean there's different -- people select what they go into. And people that go into SPACs are hoping the stock goes up next week I mean basically.

And we've got a bunch of people that were assembled over 55 years, but they started with a base of people that it was a long-term investment. And if they wanted to cash out, they thought they'd get a fair price at that time. But they really didn't -- they had bought it with no intentions like that.

So we had a vote. I think it was something like 97% or something of the shares that said they don't want a dividend.

And now that wouldn't be true at other companies. And it'd be crazy to be paying a regular dividend like Coca-Cola has done for many years, and then all of a sudden change the policy on millions of people who had bought it with one expectation in mind and try to change it into a different animal.

But Coca-Cola isn't going to change to Berkshire, and Berkshire isn't going to change to Coca Cola. We've got a different group of owners.

And it will keep self-selecting because people have a choice every day. Which do you want to -- sort of thing do you want to be in? And Berkshire is a certain kind of animal in that respect.

So we will not -- if they jigger around the tax laws, that's really got nothing to do with the decision. I mean we've got a very substantial majority of people that want us to reinvest the money, and -- but what they're more concerned about is whether we find something to do with the money, the 100 billion or something. And repurchasing shares is something that helps them, and they own a larger percentage of Berkshire as they go along. And they'd love to see us buy another business, but they don't mind us intensifying their interest in the present business.

Becky Quick

You got a lot of questions that came in on taxes, so I'll run through a few of them. We'll see kind of how many of you answered them -- how many you answered before we get to them.

But this one came from [Arthur Lewis] in Denver. "What are your thoughts on the new administration's capital gains, corporate tax and stepped-up basis tax increases?"

Warren E. Buffett
Chairman, CEO & President

Well, if Charlie wants to answer that, I'll be glad to have him do it. I long ago many times have said that I don't put my political opinions or anything in a blind trust when I take this job, but I also don't speak for Berkshire Hathaway. I mean we've got -- people have very different views on taxes, and I've expressed some things in the past.

I don't like to speak on behalf of -- when I'm sitting at a Berkshire Hathaway annual meeting presumably speaking for Berkshire, I don't really like to get into political questions generally. I don't really think I should.

But I also think if somebody asked me who I voted for [and asked it in a personal way,] I wouldn't mind. But I don't -- I've never asked a single employee of ours who they voted for or anything of the sort.

Just it's -- and I am not authorized to go around signing my name as Chairman of Berkshire Hathaway to proposals. If I write open pieces, I do it as an individual, I try to make it clear. So I don't think -- I don't want to use the meeting to give a lot of views about taxes. Charlie?

Charles Thomas Munger
Former Executive Vice Chairman

No, but I think it's probably a mistake to be basically anti-capitalist. I think capitalism is what raises GDP for everybody. And so -- and I have also a feeling that Benjamin Franklin was right when he said that it's hard for an empty sack to stand upright. And to some extent, the prosperity of leading American institutions helps them behave better.

Now there are exceptions in promotional finance and so on. But by and large, Franklin was right. And so I'm a little wary of just constantly being mad at people because they have a little more money.

Becky Quick

Charlie, there was a question that came in specifically to you on tax issue. "Over the years and with emphasis in 2020, we've heard people leaving California for various reasons, such as high cost of living, high taxes, et cetera. I understand that you believe it's dumb for states to have policies and laws that provoke rich residents leaving, but are your thoughts -- what are your thoughts on those people leaving? What keeps you in California?"

Charles Thomas Munger
Former Executive Vice Chairman

Well, that's a very interesting question. I frequently said I wouldn't move across the street to save my children $500 million in taxes. And so I have -- that's my personal view on the subject.

But I do think it is still stupid for states to drive out there wealthiest citizens. The old people that don't commit crimes, that donate to the local charity, who in the hell in the right mind would drive out the rich people?

I mean Florida and places like that are very shrewd, and places like California are being very stupid. It's contrary to the interest of the state.

Becky Quick

One more question for you. [Jack Robbins] asks, "How will a 25% to 28% corporate tax rate affect Berkshire's companies?"

Charles Thomas Munger
Former Executive Vice Chairman

Well, I don't think it would be the end of the world. We've adapted to the tax rate, whatever it is.

Warren E. Buffett
Chairman, CEO & President

Yes, I would say if they raised the tax rate, they're only going to -- the government is owning a larger percentage of the business. I'm not -- but I'm not saying what the tax rate is, but we have a Class A stock and a Class B stock.

The U.S. government owns what I call the Class AA stock. It's a very special stock. They get a percentage of the earnings, but they don't own the assets. And they don't vote on who gets to run the place or anything else.

But if the government wants to take -- when I was starting, they just take 52% of the federal government debt off corporate profits. And they've got -- what would you pay to own the government's Class A AA stock? If there was a public issue by the U.S. Treasury and they said this vehicle, give it a name like SPAC or something even sexier, but -- and all it will do is it owns the future tax payments of Berkshire Hathaway forever, and how much is that stock?

Now worth -- I think it's -- it will pay a big cash dividend, and they'll go up as we retain earnings and build the company and everything else. It's worth more if the tax rate is 25% or 28% or 52% than at 21%. They own a special stock. And we'll talk about if it all gets passed through to the customer and everything.

And the utility business that actually does, that's a special case. But it doesn't in most of our businesses. I mean it's a corporate fiction when they put out statements about the fact that this will be terrible for all of you people who pay more taxes. It hurts the Berkshire shareholders if rates are higher, and that may be quite appropriate. But to say otherwise, it's just -- it doesn't make any sense.

I would love to see the government actually issue -- They could have, I mean -- they could have set up a company. Just call it the Berkshire Hathaway Tax Company, and it would take all the taxes we paid every year. How much would they be able to sell that asset for?

They talk about unfunded obligations of the government. That's an unreported asset of the federal government. They own part of Berkshire, and they get to determine how much. I mean it's an interesting question.

Becky Quick

One last tax question, this one comes from [William Barnard] who says, "In the owner's manual portion of your annual report, Warren, you state, 'On my death, none of my stock will have to be sold to take care of the cash requests I've made or for taxes.' Would the recent Biden proposal, to treat unrealized gains as sold and taxable at death at a 43.4% rate, change the amount of stock required to be sold for payment of taxes upon your death?"

Warren E. Buffett
Chairman, CEO & President

Yes well, the tax law can be changed tomorrow. And I don't -- it could be done in a lot of different ways, and it's been a done a lot of different ways in the past.

I can tell you, I can actually make a promise to society that 99.7% of what I have when I die will either go to philanthropy or to the federal government. And the federal government can actually determine the rules on that.

And I would prefer that it would go to philanthropy. I think it actually will accomplish more utility if it goes to be used by some smart people in philanthropy, than if it simply reduces the federal debt by $100 billion or something when I die. I don't think it makes a damn difference. If federal debt is $100 billion higher or lower, it won't change anything in the world. And at present days, it doesn't really save them anything because they can borrow $100 billion and it doesn't cost them anything anyway. But that condition won't prevail.

But I don't -- I would not regard it -- I'm just talking personally. I'm not an advocate this public policy. But I wouldn't -- if they took it all, it would not bother me. I mean...

Charles Thomas Munger
Former Executive Vice Chairman

I can guarantee I won't bother you.

Warren E. Buffett
Chairman, CEO & President

You won't know. If you decide -- if American democracy decides that it's better to take it all, which I don't think they will and I don't think they should, but nevertheless, so what? I would like to see it used to accomplish the most for humanity. I mean -- and that means having smart people properly motivated, and more importantly not improperly motivated; distribute in a way -- and who knows what the hell it would be 10, 20, 30 or 40 years from now?

I do know if it goes to the government, basically it reduces the national debt by that amount. I don't think it changes whether they change the minimum wage laws or does anything else. I just think little figure changes, it will be -- it will show up in the budget one day, "received from Buffett, x". And then so a huge figure appears out below.

I don't think it really -- so I would prefer it be used privately. But that's really up to the people in the United States to decide through their representatives.

Becky Quick

This next question is for Ajit. It comes from Professor Don Wunsch at the Missouri University of Science and Technology, who says, "Mr. Jain, what has COVID-19 taught us about systemic and correlated risks? And is there anything that we will do differently from now on?"

Ajit Jain
Vice Chairman of Insurance Operations & Director

Yes, in the insurance business, we often think about pandemic risk as one of the risk factors that we need to cope with in our business. Having said that, I think the big lesson for us, having gone through what we've gone through recently, is that while we were aware of the fact that pandemic risk is a risk factor, it is totally, totally underpriced by all of us in the industry. Several of us thought it's an event that will happen, at most, once in 100 years. And even then, those odds are pretty high. So I think the big lesson for us is to recalibrate and rethink about what the return time is for something like a pandemic risk.

And separately, we haven't yet done a good enough job, as an industry I'm saying, in terms of correlating the risk and aggregating the risk and making sure we can deal with the aggregate numbers. For example, pandemic risk has obviously taken people's lives. But then separately, a bunch of us used to write something called event cancellation or contingency policies.

And in terms of pricing for the contingency policies like the Olympics being canceled, NBC would buy insurance for their rights, which might suddenly be not worth much. And when pricing something like that, we would think in terms of earthquake and risk and more recently, terrorism.

But we would never factor something like what portion of the price should come from the pandemic exposure. So I think the industry will become a lot more sophisticated in terms of thinking through what is the impact of pandemic risk across the entire portfolio as opposed to it just being localized to 1 or 2 areas.

Becky Quick

And I'm sorry, Don asked if anyone else on the stage wanted to comment after Ajit on that same topic?

Warren E. Buffett
Chairman, CEO & President

I missed that.

Becky Quick

He was just looking if anyone else on the stage wanted to comment on that?

Warren E. Buffett
Chairman, CEO & President

Well, as Ajit mentioned, people were throwing in on event cancellation. I mean lots of people buy insurance against the Olympics being canceled or the United States not participating. I mean they try to think of all kinds of risks because they have ad campaigns based upon them. So there's a lot of cancellation insurance. And it was probably underpriced the implicit part of that premium that was attributable to pandemic risk.

I mean Bill Gates gave a terrific talk at TED 5 or 6 years ago, and people ignored it. And it's very interesting because this isn't the worst case, what we've seen, and yet it's staggering in terms of what has happened. And people that wrote insurance, that they may have find out sometimes that they were covering things they didn't want to or they didn't even intend to cover. Or maybe the insured didn't think they were buying, but nevertheless after the event occurs, that they get very inventive in coming after them.

There are certain risks too that are just too big. The nuclear risk, for example, I mean the federal government is -- very early on they recognized that the private insurance industry, they can't handle the risk involved and the financial risk that would be involved in terms of a massive nuclear strike or something like that. So it's pandemics, the wording will be much more careful in future policies on trying to divine it very precisely.

And incidentally, I mean the way the cases have come so far in the United Kingdom I mean. And I think there was one particular insurer, I mean the cases are coming down much tougher on insurers.

In the United States, I mean the policies were just written differently. You don't get insurance against something you don't buy it against for. And generally the court decisions have come down favorable to insurers.

And at Berkshire, it just so happens we are not a big player. But that's, in commercial, multiple peril, which might be where -- it is not a huge factor for Berkshire.

Becky Quick

This follow-up question is from [Martin Devin] and he asks both to Ajit and Warren. "What's your best estimate of Berkshire's insurance claim exposure from the COVID-19 pandemic?"

Ajit Jain
Vice Chairman of Insurance Operations & Director

Well, in terms of reserves starting from last year to the end of the first quarter this year, we have put up $1.6 billion and change in terms of reserves. Now what that doesn't take into account is some of the frequency benefit because of COVID-19 that results because of fewer accidents. And GEICO has had a huge tailwind because of that. But in terms of what the insurance operations collectively are going to be writing checks for, that number as of now is about $1.6 billion.

And my guess is that it will probably grow. Because if you look upon -- the industry as a whole has reserved -- we reserved $1.6 billion as I mentioned. The industry as a whole has reserved about $25 billion to $30 billion for COVID-19 as of now.

If you believe the pundits in the industry, they will tell you that number is probably going to be closer to $100 billion. So there's another about $70 billion, $75 billion of COVID-19 losses that need to flow through insurance industry's balance sheet and income statement. Our number therefore of $1.6 billion that we have as of now is going to be a lot, lot higher. But it's not something that we cannot manage completely.

Warren E. Buffett
Chairman, CEO & President

Yes, we will not be in the top 5 payers of my guess of insurance claims, even though we're -- it's -- and we write a much smaller amount of both life insurance and annuities actually. In the end we had more life insurance claims, but the annuities are not going to as -- more people will have died that would have otherwise got payments under annuity.

So it cuts a lot of ways. It's one of the great human catastrophes of all time, but it is not that big in insurance.

I would say this. If the insurance industry thinks they're going to lose $100 billion, the $100 billion are going to be on their books now. I mean the idea of [ceding] in losses, you've got a liability. And our goal is not -- our goal is to have put up a liability when we think it's happened.

And if -- we should not be at $1.6 billion, I would say this, if we really think we're going to have some proportionate share of $100 billion, but that's an offset on that.

Becky Quick

This next question is for Greg, but also for Warren and Charlie. It's from [Blair Miller] who asks, "What does the combination of Kansas City Southern with either Canadian Pacific or Canadian National mean to BNSF in terms of competition? And do you think the synergies of the merger will justify the multiple paid?"

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

Sure. So obviously a transaction we follow very closely with both Canadian National and Canadian Pacific bidding to purchase Kansas City Southern. Either of those companies acquiring Kansas City Southern will have an impact on BNSF. What they're basically proposing is to create a north-south railway that goes from Canada into Mexico. We do have a strong presence in Mexico. Not as strong as some of our competition, but we would feel competition there.

So we'll follow that transaction very closely. As it goes before the Surface Transportation Board, the standard that will be applied is that competition be protected or enhanced. So that's our opportunity to protect our franchise on behalf of our customers.

So we move intermodal business, both in and out of there, on behalf of certain customers. We'll want to protect the rates of our customers there. So we'll be active in the approval process. But there's no question, at the end it impacts our franchise. Warren?

Warren E. Buffett
Chairman, CEO & President

Yes. It's not huge, but it affects both the Union Pacific and BNSF, and -- to a small degree, relatively small degree, and -- but that's not really the worry of the Surfaces Transportation Board. Their job is to do what's best for the shippers.

And in terms of the price that's being paid, like you said, if you can borrow all the money for nothing. It wouldn't just make much difference to people. And this would not be being paid under a different interest rate environment. I mean it's very simple.

But it would make -- there's no magic to the Kansas City Southern. It's got a -- I think the deal with Mexico ends in 2047. And it's -- it will -- the number of carloads carried, I mean, they're not going to change that much.

But it is kind of interesting, there's only -- there's 2 major Canadian what they call class 1 railroads. And there's 5 in the United States. And this will result in essentially 3 of the units being Canadian, 4 being U.S., which is not the way normally the development of the railroad system would work in the United States.

But it's -- we talked about it plenty. And CP or -- either Canadian Pacific or Canadian National is very likely to get it. I think the Surface Transportation Board voted 4 on 1, didn't they, the other day? They didn't get ...

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

They voted on an initial trust structure that they had to approve for Canadian Pacific. And that was a 4:1 vote as you noted, Warren.

Warren E. Buffett
Chairman, CEO & President

Yes.

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

So they're moving forward with the evaluation of it.

Warren E. Buffett
Chairman, CEO & President

Yes. And normally, railroad deals are very long, take a long time for them to evaluate. But in this case, I think they have 2 opposing trust proposals. And in effect by making a -- if they make a quick decision on which trust proposal would they allow, [or don't say] allow 2 proposals exactly. So it may be a very accelerated decision, I don't know. But it's up to Surface Transportation Board to do what's best for what their obligation is to the country to do.

Becky Quick

There was a follow-up question on that. "Do you think the valuation that they're paying is worth it?"

Warren E. Buffett
Chairman, CEO & President

Well, we -- in a very, very mild way, I mean everybody's kind of [played with] making deals with different railroads ever since I've been in the railroad business.

So we've talked about it. We [talked about] CP when -- was it Hunter Harrison that came after -- was it Hunter who came after CP? That kind of led the way.

And we looked at buying CP. I mean -- everybody looks at everything. And we would not pay this price. And it implies a price for BNSF that's even higher than what the UP is selling for.

But it's kind of play money to some degree, I mean when interest rates are this low. And I'm sure from the standpoint of both CP and CN, there's only one KC Southern. And they're not going to get a chance to expand it. They're not going to buy us. They're not going to buy UP. And the juices flow and the prices go up, and...

Charles Thomas Munger
Former Executive Vice Chairman

Buy with somebody else's money.

Warren E. Buffett
Chairman, CEO & President

Yes, it's somebody else's money. And you're going to retire in 5 or 10 years. And people are not going to remember what you paid, but they're going to remember whether you built a larger system.

And the investment bankers are cheering you on at every move. They're saying you could pay more, and this is -- they're moving the figures around the, spreadsheets around. And the fees are flowing.

Becky Quick

This question comes from [Asher Hough] in Brooklyn who says -- Asher's been a shareholder since 2006, says that he appreciates your honesty and candidness when it comes to explaining costly errors you made.

"In this year's chairman letter, you discussed that you made a mistake in 2016 when calculating Precision Castparts' average amount of future earnings, which resulted in Berkshire overpaying to acquire it. It appears that Precision's earnings declined substantially in 2020 because of the pandemic and the effect of airline and travel industry.

What calculations could you have made in 2016 that might have altered your decision to acquire it? And secondly, are the problems Precision is currently facing larger than the pandemic?"

Warren E. Buffett
Chairman, CEO & President

Well, Berkshire didn't make a mistake. I made the mistake, incidentally.

No, any time we look at buying a business, we're evaluating the competitive strengths of the business, the price we have to pay, the management we get, everything. And we didn't make a mistake on the management, but in terms of earning power on average. And when Boeing had troubles with the MAX, well, that's a probability.

I mean any time, any customer is a big -- I mean all kinds of things can happen. And we have seen some of those things happen. And I paid too much in relation to average earning. It's a terrific company, and it's -- I'm happy with the management, everything and...

But GE doesn't need as many engines as we thought they would need. And they get into the power business and a variety of things. And we don't know the airline businesses, but we do not think those businesses would necessarily be in something close to a depression, when other businesses that we bought end up doing -- sometimes are doing better than we think.

But we'll continue making mistakes. I mean -- and I shouldn't say we will. I will. But even these other...

Charles Thomas Munger
Former Executive Vice Chairman

[The reserves] will help.

Warren E. Buffett
Chairman, CEO & President

And well, we got some wonderful deals and some durable deals. And the nice thing about it is as I pointed out -- this doesn't really apply in the case of Precision precisely. But when we're disappointed in a business, it usually becomes a smaller and smaller percentage of our business, just by the nature of things, because it isn't going any place.

And when we got a successful business like a GEICO or something of the sort, GEICO's doing -- they're doing 15x as much business as when we bought control in 1990. They become a proportionately much more important part of our mix.

So you really get through just natural forces, you get more of your money in the things that have developed more favorably than you thought. You actually end up getting a greater concentration in the ones that work out.

It's not like -- Charlie would say it's not like having children. I mean the ones -- the bad ones cause you more problems. But in the children of businesses, the small ones kind of -- by the way, we started with 3 businesses, Charlie and I. And Berkshire was textiles, Diversified Retailing was a department store, and trading stamps were Blue Chip's business. And those were the 3 companies we put together, and all 3 of the original businesses failed.

Which sort of gets me in terms of the people that are worried about don't we know that coal is going to be phased out over time? Of course, we know coal is going to be, but that doesn't mean we're going to be phased out over time. I mean that -- every business has there's some things to think about that way.

The biggest danger -- they have that section in the prospectus called -- what do they call that, about certain...

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

Risk factors?

Warren E. Buffett
Chairman, CEO & President

Risk factor, yes. The #1 risk factor, you never see it, the #1 risk factor is that this business gets the wrong management. And you get a guy or a woman in charge of it that they're personable, the directors like them. They don't know what they're doing, but they know how to put on an appearance. That's the biggest single danger of their business. And if that person stays and runs it for 10 or 15 years and either stays in the textile business, a department store business and expands.

And I've looked at a lot of businesses, and that's what's caused the #1 problem. And it isn't the kind of thing where they list them all because the lawyers don't want them to list them.

Becky Quick

This question comes from [Ragu Bashwal,] and it's for both Warren and Charlie. "Now that the crypto market overall is valued at $2 trillion, do you still consider cryptos as worthless artificial gold?"

Warren E. Buffett
Chairman, CEO & President

I knew there'd be a question on bitcoin. And I thought to myself, well, I've watched these politician dodge questions all the time. And I'm always kind of disgusted when they do it.

But the truth is I'm going to dodge that question. Because we probably got hundreds of thousands of people watching this that own bitcoin, and we've probably got 2 people that are short. So we've got a choice of making 400,000 people mad at us and unhappy and -- or making 2 people happy. And that's just a dumb question.

So I thought about -- we had a governor one time in Nebraska a long time ago. But he would get a tough question, "What do you think about property taxes?" Or, "What should we do about schools?" And any look right at the person and he's say, "I'm all right on that one." And he'd just walk off. Well, I'm all right on that one. And maybe we'll see how Charlie is.

Charles Thomas Munger
Former Executive Vice Chairman

Well, those who know me well are just waving the red flag at a bull. Of course, I hate the bitcoin success. And I don't welcome a currency that's so useful to kidnappers and extortionists and so forth. Nor do I like just shuffling out a few extra billions and billions and billions of dollars to somebody who just invented a new financial product out of thin air.

So I think I should say modestly that I think the whole development is disgusting and contrary to the interest of civilization. And I'll leave the criticism to others.

Warren E. Buffett
Chairman, CEO & President

I'm all right on that one.

Becky Quick

The next question that comes in -- or the next series of questions are from [James Hernandez.] He has 2 questions, one for Ajit, one for Greg. They both concern Elon Musk.

For Greg, this question is for you. "Elon Musk has stated that Berkshire Hathaway's energy proposal for Texas spending more than $9 billion for new generating capacity is wrong. Instead, Mr. Musk argues that load balancing using battery storage is the appropriate course of action.

Can you explain why the BHE proposal is the better course of action for Governor Abbott in the state of Texas? Specifically, what amount of savings can the citizens of Texas expect above and beyond what Mr. Musk is proposing?"

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

Sure. So the -- obviously, there is a very unfortunate event in Texas in February, and it basically lasted 4 days. Many lives were lost. The economic damage was significant. Texas has highlighted that anywhere from $80 billion to $130 billion in incurred losses over that period of time.

And I think when you look at the power sector, it fundamentally let the citizens down. It didn't perform as they expected. And then when it did perform, it was extremely expensive. They incurred billions and billions of dollars of energy cost versus a multiple of basically 10x what they paid. They paid 10x in energy costs, over those 4 days, what they paid in the past year. So a very substantial event for Texas.

We've gone to Texas with what we believe is a good solution. We spend a lot of time pulling it together, understanding the fundamental issues around it. And our proposal is really based upon the fact that the health and welfare of Texans were at risk. And we needed to have effectively an insurance policy in place for them that if they needed the power on very short notice, it would be able to be dispatched and it would be there for the 4 days. We're actually proposing it could be there for 7 days.

And the fundamental concept of our proposal has always been if there's a better proposal that's brought forward, we've accomplished our mission. We've just been really there to -- it's the best proposal or option we could come up with. And obviously if Texas or Elon or someone else comes up with a better proposition, we've always said, "Texas, you should pursue it." We strongly believe right now, we have what remains is a very good proposal for Texas, and it will continue to be discussed and evaluated.

The big difference between a battery proposal and our proposal is that we will have power that can be generated continuously for 7 consistent days. Where if you went to a battery solution, you may release that power that's been stored for 4 hours. But we're talking 4 days of a problem, not 4 hours, and it's just a completely different cost equation and solutions.

So very proud that our teams brought forward what I thought was a very unique solution. We've worked hard with our suppliers. And Peter Kiewit and Sons put together what we believe is a firm cost that can also be delivered by November of '23. So again, we put a firm date on.

It won't be ready next winter unfortunately. It won't be ready this summer. But it's a valuable solution and one that we hope at least leads to the right discussion and the right long-term solution for the state.

Warren E. Buffett
Chairman, CEO & President

Yes, and we're also willing to put up $4 billion that if we don't deliver when we say we're going to deliver, we'll pay it as penalty basically. But we went to Kiewit. We went to General Electric to say, "How long do we get turbines for that?"

If you're going to be prepared for 2023, you have to start at a point fairly soon. And you have inflation going on. And Kiewit was not going to change things on us in a month. We don't try to get the contracts all written out. But we -- they had 100 people working on it.

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

Yes, they had 100 working on it.

Warren E. Buffett
Chairman, CEO & President

GE's cooperative and everything, but it doesn't mean we have the best solution. We just know what we can do. And if anybody can do it faster, they can do it cheaper, whatever, that's terrific. But they should have something to lose if they don't do it, I mean. And we will back our promise up by $4 billion, which -- and we won't have any rinky dink clauses in there that if this happens or that happens, we don't pay.

Well, so -- but we won't be able to do that a year from now. I mean we can go a year from now with the costs then from what they are then, and then it will be a year further out.

We want Texas -- Texas is a terrific place to do business. We do a lot of business there and where BNSF have a service gateway with. And it's a great place.

And this was out of the blue, but one way or another, the nature of the utility business is that you got to -- you have to be prepared for something that probably isn't going to happen. You don't want to say, "It's well, it's a one in 30 year event, and people die."

I mean -- so you want a margin of safety in it. And we've got one solution and other people may have other solutions. And we will cheer when a solution is reached of any kind, and we will cheer a little louder if it's ours.

Becky Quick

Ajit, your question from this gentleman, "Suppose the hypothetical situation arises where Warren Buffett calls you on the phone to tell you that Elon Musk has contacted him about writing an insurance policy on his mission to and subsequent colonization of Mars. Specifically, he wants insurance to insure SpaceX's heavy rocket, capsule, payload and human capital. Would you underwrite any portion of a venture like that?"

Ajit Jain
Vice Chairman of Insurance Operations & Director

This is an easy one. No, thank you. I'll pass.

Warren E. Buffett
Chairman, CEO & President

Well, I would say it would depend on the premium. And I would say that I would probably have a somewhat different rate if Elon was on board or not on board. I mean it makes a difference. I mean if somebody's asking to insure something. So I would -- that's called getting skin in the game and quite...

Ajit Jain
Vice Chairman of Insurance Operations & Director

But in general, I would be very concerned about writing an insurance policy where Elon Musk is on the other side.

Becky Quick

Okay.

Warren E. Buffett
Chairman, CEO & President

Tell Elon to call me instead of Ajit.

Becky Quick

This question comes from [Michael Lou] from California. "This is for both Warren and Charlie. In your shareholder letter, you mentioned that the best investment results come from the companies that require minimum assets to conduct high-margin businesses. In today's world, many of these companies tend to be software-driven businesses.

While Berkshire has avoided investing in high-growth technology companies in the past, this appears to be slowly changing with your investments in Apple and Snowflake. As shareholders, should we expect that high-margin businesses will begin to constitute a larger proportion of Berkshire's investment portfolio over time, particularly as Todd and Ted take on larger roles in the investment decision process?"

Warren E. Buffett
Chairman, CEO & President

Well, we've always known that the dream business is the one that takes very little capital and grows a lot. And Apple and Google and Microsoft and Facebook are terrific examples of that. I mean Apple has $37 billion in property, plant and equipment. Berkshire has 170 billion or something like that, and they're going to make a lot more money than we do. They're in a better business. It's a much better business than we have. And so Microsoft business is a way better business than we have. Google's business is a way better business.

So we've always looked -- we've known that a long time. We found that out with See's Candy in 1972. I mean See's Candy just doesn't require that much capital. It doesn't have -- has obviously a couple of manufacturing clients. They call them kitchens. And -- but it does have -- it doesn't have big inventories, except seasonally but for a short period. They don't have a lot of receivables.

So those are the kind of businesses -- they're the best businesses, but they command the best prices too. And there aren't that many of them, and they don't always stay that way.

So we're looking for them all the time, and we've got it. We've got a few that are pretty darn good. But we don't have anything as big as the big guys.

But that's what everybody is looking for. That's what capitalism is about, people getting a return on capital. And the way you get it is having something that doesn't take too much capital.

I mean if you have to really put out tons and tons of capital, utility business that was -- it's not a super high-return business. You just have to put out a lot of capital. You get a return on that capital, but you don't get fabulous return. You don't get Google-like returns or anything remotely close to it.

We're proposing a return in the transaction with the proposition with Texas. I think it's 9.3%, isn't it?

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

Yes, 9.3.

Warren E. Buffett
Chairman, CEO & President

Yes. But if you look at the return on most American businesses on net tangible assets, it's a lot higher than 9.3%. But they aren't utility businesses either.

Becky Quick

Charlie, did you want to add anything to that?

Charles Thomas Munger
Former Executive Vice Chairman

No.

Becky Quick

Okay. This question is from [Ryan Pizarro] in New York City, who says, "Todd and Ted have taken on increased responsibility at Berkshire over the years managing larger pools of capital, including the company's sizable Apple holdings, participating in M&A strategy, and even overseeing the company's now shuttered health care partnership with Amazon and JPMorgan. We are grateful for their efforts.

But Todd and Ted are still not made available to shareholders at the annual meeting each year. Given their growing importance to the firm, can you discuss this policy and whether we can expect to hear from them more in the coming years?"

Warren E. Buffett
Chairman, CEO & President

They're both absolutely terrific. And that's one reason I don't want people closing them on stocks. They are assets of Berkshire. And just there's no reason for them to be out educating other people on how to compete with us.

And it wouldn't -- it always seems that people expect -- they don't expect to --they don't expect Merck or Pfizer or something to tell them exactly what their scientists are working on or where they stand and what the [orders] have been so if they can eliminate those.

And if you've got talent that knows how to evaluate businesses -- and those 2 fellows have been. They've gone far beyond that. They're terrific assets, and they love Berkshire and they work extraordinary hours. But we don't really want them going around with people asking them questions about why you like this industry better than that industry or anything of the sort.

Becky Quick

This question is for Charlie. It comes from [Stephen Tedder] in Atlanta. He's been a Berkshire shareholder for 10 years and says, "You and your friend Li Lu have been very optimistic with respect to investing opportunities in China. BYD has performed spectacularly for Berkshire since its initial purchase in 2008 and is currently valued at $5.8 billion.

The Daily Journal recently bought a large position in Alibaba after founder Jack Ma had been reprimanded by the Chinese communist party. And Ma's other company, Ant, was not allowed to proceed with its IPO. What are your current thoughts on China and whether the communist leaders will allow businesses with strong leadership to flourish in decades to come?"

Charles Thomas Munger
Former Executive Vice Chairman

Well, I think the Chinese government will allow businesses to flourish. It was one of the most remarkable things that ever happened in the history of the world when a bunch of committed communists just looked at the prosperity of places like Singapore and said, "The hell with this, we're not going to stay here in power. We're going to copy what works."

And it changed communism. They accepted Adam Smith and added it to their communism. Now we have communism with Chinese characteristics, which is China with a free market with a bunch of billionaires and so forth. And they made that shift. They deserve a lot of credit. Warren and I are not quite as good at that, as changing our minds in many cases.

Warren E. Buffett
Chairman, CEO & President

Yes.

Charles Thomas Munger
Former Executive Vice Chairman

And that was a remarkable change coming from such a place. And of course, it's worked like gangbusters. There is an enormous growth in the average income of the average Chinese. They've lifted 800 million people out of poverty fast. And there was never anything like it in the history of the world.

So my hat is off to the Chinese. And I think they will continue to allow people to make money. They've learned it works. The -- I love what the guy said in the first place. "I don't care whether the cat is black and white as long as it catches mice." That's my kind of talk.

Warren E. Buffett
Chairman, CEO & President

In that list of the 20 most valuable companies, 3 are Chinese. Now if you're looking out 30 years, how many do you think would be Chinese? My guess is more, but I don't think it will top the United States. But who knows? It's amazing what has been accomplished, and...

Charles Thomas Munger
Former Executive Vice Chairman

Yes, really amazing.

Warren E. Buffett
Chairman, CEO & President

And they found what works. I mean there's nothing like finding something that works in order to sort of reinforce ideas over time. And we'll see what happens. But I would bet there will be more than 3, -- but I would bet the United States has more than China has too.

Becky Quick

This one comes from [Tim Medley] -- sorry, [Tim Medley] in Jackson, Mississippi who's been a Berkshire shareholder since 1987. He writes, "On March 19, respected economist Larry Summers, the former President of Harvard University and the former Secretary of the Treasury under President Obama, was critical of President Joe Biden's $1.9 trillion American Rescue Stimulus plan. In an interview with Bloomberg Television, he said, 'I am much more worried that we will have more inflation or that we will have a pretty dramatic fiscal monetary collision. This goes way beyond what is necessary.' He said also, 'This is the least responsible macroeconomic policy we've had in the last 40 years.' Your thoughts?

Warren E. Buffett
Chairman, CEO & President

You guys gave me on that.

Becky Quick

He didn't write to who, so anybody on the stage.

Warren E. Buffett
Chairman, CEO & President

I would say that Larry has been reading his uncle's book which was Paul Samuelson. But Larry is very, very, very smart. And he's laying out possibilities, which actually now probably been voiced a little more even since that March 19, whatever date it was that he made that.

You can't just do one thing in economics. And if we really could shovel out more and more debt and the carrying cost turned out to be something bigger -- People thought Japan couldn't do what they've done, but they it used to be called the widowmaker and the wrong Solomon. And people were shorting Japanese bonds.

But the answer is we don't know. But Larry's view is an important view, and it's just as good as my -- probably the view on the other side might be. We don't know what happens from the present policies.

We do know, as Jay Powell said the other day, the idea that 100% of GDP was some terribly dangerous level in terms of debt, that doesn't really make a whole lot of sense now. And that used to be kind of accepted wisdom.

We've learned that a lot of things we thought before weren't true. But what we haven't learned yet is what we're doing now is true. And the best thing to do is recognize you don't know and proceed in a way where you get a decent result no matter what happens. And that's what we try and do at Berkshire Hathaway. We do not think we can make money by making macro economic predictions. We do think we can -- we do think we can be pretty darn sure we will get a reasonable result under policies that will maximize result if we could do that sort of thing.

Charles Thomas Munger
Former Executive Vice Chairman

It's not at all clear whether Larry is right or wrong, and...

Warren E. Buffett
Chairman, CEO & President

He's a smart man, though.

Charles Thomas Munger
Former Executive Vice Chairman

He is a smart man.

Warren E. Buffett
Chairman, CEO & President

Yes.

Charles Thomas Munger
Former Executive Vice Chairman

And it's crazy for everyone raising it to expect he's the only one talking that way. Which I admire, by the way.

Warren E. Buffett
Chairman, CEO & President

Yes. It guarantees he won't get a position in the administration.

Charles Thomas Munger
Former Executive Vice Chairman

Yes. Well, that's one of the reasons I admire him.

Warren E. Buffett
Chairman, CEO & President

Yes.

Charles Thomas Munger
Former Executive Vice Chairman

And it's not that there's anything wrong with having a position in the administration. But I think people who kind of tell the way they think it is, I like it.

Becky Quick

This question comes -- it circles back to banking, which you touched on earlier. But [Jerome Bernard] from Switzerland writes, "Could you please explain why you decided to exit most of your bank stocks in 2020, except for Bank of America? And what's your view on the future of the banking industry?"

Warren E. Buffett
Chairman, CEO & President

I like banks generally. I just didn't like the proportion we had compared to the possible risk if we got bad results that did not -- so far, we haven't gotten. So I just -- and I -- we were over 10% of Bank of America. It's a real pain in the neck both to the bank, and more to the banks than us, if we go over 10%. That's just a lot of...

And I like the Bank of America. I mean -- and I like Brian Moynihan very much. And I like the banking business is fine. So we took that up, but we took the overall bank position down. We didn't want to go above 10% in any of the others, and we did want to increase the BofA position.

But we overall didn't want as much in banks as we -- we like -- the banking business is way better than it was in the United States 10 or 15 years ago. The banking business around the world in various places is what might worry me. But our banks are in far, far better shape than 10 or 15 years ago.

But when things froze for a short period of time, the biggest thing the banks had going forward that the Federal Reserve was behind them. And the Federal Reserve is not -- they're not behind Berkshire. It's up to us to take care of ourselves.

Becky Quick

This question comes from [Matt Wye] in Los Angeles. "You recently purchased a large stake in Verizon. For educational purposes, could you please explain your thinking behind this investment? In general, many people see telecoms as dumb pipes that have to spend heavily on Capex building out the 5G infrastructure, only for the other tech companies to take advantage and capture most of the value created from the infrastructure like Facebook, Uber, Airbnb and DoorDash."

Warren E. Buffett
Chairman, CEO & President

Well, I think he's analyzed the situation well, but we are not in a -- in the business of explaining why we own the stock which we either buy more of or sell or who knows what. So he's on his own, but he sounds like he's very capable of thinking it through very well himself.

Becky Quick

[Slabin Blucobra] writes in, "Senator Josh Hawley recently unveiled a new antitrust proposal that would ban mergers and acquisitions by firms with a market capitalization over $100 billion. While this legislation is unlikely to go through, increasing antitrust regulation could represent a material risk for Berkshire. Has Berkshire's Board already discussed what would happen to the company over the long term, if Berkshire was to be prevented from acquiring controlled businesses?"

Warren E. Buffett
Chairman, CEO & President

Well, we don't discuss that as a specific -- but the Board is very, very, very familiar with what Berkshire does, why they do it what -- how we think in deploying capital. But we could -- everybody knows that if you change the antitrust laws, it can change things for Berkshire. If they change the tax laws, it can change things for Berkshire.

There's a lot of things, and we can spend hours discussing them. But in the end, is it a 22.3% risk that something changes? It's a good way to fill the time at Board meetings. And if you're getting $300,000 or $400,000 a year as a Board director, then you might want to spend your time doing that. But we really don't focus on that.

The main thing about Berkshire is how do they preserve the culture. How do you make sure that if you get the wrong person as the CEO, you can do something about it. That's the biggest risk a Board has is if you pick the wrong CEO. And I'm in 20 Boards and this happens more than once. And sometimes it's a terrible problem to get rid of them. Years go by and -- [if the dissident] comes in, it's one thing. But if you just sit there and you collect your $300,000 or $400,000 a year and the chief executive keeps proposing you get an increase from time to time. And it's worse yet if he's a nice person doing his best.

It's -- but we're not going to spend a lot of time. We may do it on a personal basis. We're not going to take a lot of people. And we wanted to know more about what's going on with BNSF and how Katie is doing and whether the KCS thing can injure us in a material way and so on. And we really don't -- except maybe on a private side, we don't start talking about what the effects will be in 2050 if this projection or that projection is met. Charlie?

Charles Thomas Munger
Former Executive Vice Chairman

Nothing to add.

Becky Quick

This question was sent in by [Don Graham] during the meeting based on something you said earlier today. And he says, "Why does Warren say Berkshire's ability to insure enormous risk quickly is a less valuable asset than it used to be?"

Warren E. Buffett

Chairman, CEO & President

Well, because the demand is less, I mean, basically on that. If you take a period like happened after 9/11, I remember I may be wrong in the details. But Cathay Pacific, for example, they couldn't land in Hong Kong, as I remember, unless they had an insurance policy by Monday of the following week. Well, we can do it. Ajit calls me up, and he thinks of a price and I think of a price. But we can do it. We can take the loss if it happens. They called us on the Sears Tower, I think, back then. After that, nobody knew -- they didn't know whether bombs are -- might be placed all over. So -- and they wanted more insurance all of a sudden, and we gave them a price.

And so that thing -- that sort of an environment hasn't really persisted. I mean there were times I think perhaps AIG when Hank Greenberg was there, he would do the same thing. But there weren't 10 or 20 people up, and they needed big limits in some cases. And we were good for it. And they knew that if they bought the insurance and it happened that we'd write the check and it would clear. Ajit, you might have something to say.

Ajit Jain
Vice Chairman of Insurance Operations & Director

Yes, in addition to the demand side, the supply side has become a lot more competitive as well, a lot of people who can put up big limits. Not as much as we do, but they can syndicate a program and put up $1 billion very easily. So that competitive advantage we had, we still have, but it's no longer as big a deal as it used to be.

Becky Quick

This question comes from a shareholder in Scotland who wants to know Warren, Charlie and Greg's views on how Kraft Heinz has performed over the last 12 months compared to the disappointing performance pre-COVID. And what are your current and longer-term views on Kraft Heinz's prospects?

Warren E. Buffett
Chairman, CEO & President

Well, I think that Greg is on the Board, so he -- I don't know that we're in a position to give advice on Kraft Heinz. We do -- we entered a -- in effect a semiformal partnership with 3G many years ago when it was just behind steel and then went on to the -- acquired Kraft with their partners. And they've done more than -- they hold up their share of things. And we do what we said we'd do going in, which is to be a financial partner. And they're more of the operating partner although we participate, to a degree, in any big decisions and they would listen to us. But we're not making any -- in terms of Kraft Heinz's stock, that's up to somebody else to evaluate.

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

The only thing I would add, Warren, is I think we're very comfortable with the fact that they put a strong manager in place in Miguel, and he's put a very good team in place at Kraft Heinz. So we're pleased with the leadership and management team in place. They're very focused on how they're executing as they've gone forward and rationalizing their capital structure and managing down their debt structure. So very pleased with the path forward with the existing team.

Warren E. Buffett
Chairman, CEO & President

Yes, we feel better about the -- one of the -- this is a more general subject. But one of the subjects I might write about in one of the future annual reports is the problems caused by the mist that people have about their own organization. And I've seen that so many times in various forms.

And to some extent, the problem has become accentuated in the last 20 or 30 years because the CEO often -- and works with the Investor Relations. Then they say, "Well, we have to have constant contact with the analyst community." And of course, so they go on every couple of months, and they repeat certain things about their company, and it becomes part of sort of the catechism. And nobody is going to go on 2 months after the CEO has said one thing and say, "Well actually that really isn't the way." They're not going to contradict themselves or change course.

And so if you get this mist -- and it can occur in a lot of different ways. I can give a lot of examples, which I won't do because I tell my friends in corporate America I really am not going to squeal on them. But there's a lot of mythology that gets handed down from one CEO to the next. Can the succeeding CEO say the guy that picked him was on the wrong course, or he's been telling you something that isn't really quite true? He can't do it. And then he starts repeating it, and it's -- it leads to enormous errors.

But it's hard to tell the story without giving examples, and I don't like to give examples. So we'll see when I write about it sometime. Charlie, you probably got some thoughts. He's been -- he's had a ringside seat at a lot of -- he's been on Boards that I haven't been on. I mean -- and it doesn't just extend the business. It goes beyond that, in education and, well, a lot of areas.

Charles Thomas Munger
Former Executive Vice Chairman

What's really interesting is the way you prattle out all the time, you're pounding back in even if it's wrong. And so one of my favorite remarks in the history of human remarks was by Sir Cedric Hardwicke, who is a great British actor. And he said, "I have been a great actor for so long that I no longer know what I truly think on any subject." And I think that happens to a lot of people. And it happens to virtually every politician.

Warren E. Buffett
Chairman, CEO & President

And it gets embedded in corporate...

Charles Thomas Munger
Former Executive Vice Chairman

It's embedded in a lot.

Warren E. Buffett
Chairman, CEO & President

And the trouble is now the CEOs speak out so often, so if they've got some crazy things that they're saying about their company and they keep repeating it, the subordinates aren't going to contradict. And so they just believe it after a while, and it's dangerous.

Charles Thomas Munger
Former Executive Vice Chairman

Yes. And of course, the young people get these ideas after their liberal education and think that God has given them direct insights. And they're just as crazy as the politicians.

Warren E. Buffett
Chairman, CEO & President

No, there's some old people we have. So...

Charles Thomas Munger
Former Executive Vice Chairman

But the old people are already crazy, but...

Warren E. Buffett
Chairman, CEO & President

They're going to die sooner. So...

Charles Thomas Munger
Former Executive Vice Chairman

We have our oldest insanities. The new insanities are -- the young get.

Becky Quick

All right. This question comes from [Bill Begley,] who said, "Could you tell us what happened to the joint venture between Berkshire, JPMorgan and Amazon to investigate what could be done about the current state of medical health care in the United States? The only item I read was that it was disbanded. Do you have any lessons to be learned from your effort?"

Warren E. Buffett
Chairman, CEO & President

Well, we learned a lot about the difficulty of changing around an industry that's 17% of GDP. And we're -- we learned -- we accomplished a lesser objective, which is probably more important to us even than either JPMorgan or to Amazon because we knew less about our own system than they did. They knew. They're more centralized operations. So we got some benefits in the sense that we looked at 60 or 70 different operations we had presently. And that was -- that's one case where a certain amount of centralization, at least in certain aspects of it, could save real money. I mean we found inefficiencies. And like I said, we probably saved more than the other 2 partners because they knew their situation better. We found some dumb things we were doing.

So we got our money's worth. But in terms of the big picture of changing something that so many people have a vested interest in doing, and there's one additional factor to it which is really interesting. There's an ingenious aspect to it and it goes back to a fellow named -- which didn't have any direct connection, but Beardsley Ruml. And nobody ever heard of Beardsley Ruml. But Beardsley Ruml in 1941 came up with the idea of the withholding tax. So people, instead of April 15, having to write a check and think how much they hated their politicians and they hated the government and everything else, they actually looked at it as kind of a Christmas club. And there were overpayments and they actually got a check when the final payment came due.

So when you aren't writing the check yourself, you may know that the health benefit from your company is worth $10,000 a year deal or $15,000. It may cost them that much, but -- it may cost the company that much, but you don't see it. So the company pays it. And most of the people in that waiting room sitting next to me when they -- they are not sitting there thinking about whether "I can afford to do this" or what's this going to do. They're generally under some kind of a plan. Not always obviously. But they don't think that if the company wasn't paying them that, they could pay them to have then additional compensation. But of course, the system is the company gets a deduction if they pay it. But if you pay it yourself on a policy, I don't believe you get a deduction. So it's something that's -- most of the people are not seeing as a cost to them, and they like that pretty well.

Charles Thomas Munger
Former Executive Vice Chairman

No kidding.

Warren E. Buffett
Chairman, CEO & President

Yes, well but that's true. The federal income tax, I mean it was an act of genius from the standpoint of the government to go to a withholding system. And if you didn't, just think of how many people on April 15 would have to sit down and write a pretty good-sized check, and they'd be mad. They wouldn't like it. And they don't feel it now.

So we were up -- that's an obvious point, but you also -- people like their doctor in general, and they don't like the fact that it's 17% of GDP. But one is just kind of amorphous sort of thing, and the other is very, very real to them. And the most prestigious people in the community are on the hospital boards and a lot of people that are fairly happy with the system.

So we did not make inroads on that. And we are paying 17% of GDP for health care, and no major country is more than 11%. And in the pandemic, we've had a death rate -- a death total as a percentage of population that's way higher than the rest of the world. Not every single country, but way higher. So we've laid out more money and gotten a poor result in terms of this particular pandemic, in terms of deaths per capita. Now that may not turn out to be the...

Charles Thomas Munger
Former Executive Vice Chairman

Oh, Warren, even though you shot it and missed, you were at least shooting at an elephant. The cost of health care in Singapore is 20% of what it is in the United States, and their medical system works better. So you were shooting at a huge elephant. But as you found out, it's very hard to for people to get very enthusiastic about losing part of their income.

Warren E. Buffett
Chairman, CEO & President

No, I said we were fighting a tapeworm.

Charles Thomas Munger
Former Executive Vice Chairman

Yes.

Warren E. Buffett
Chairman, CEO & President

And the economy and the tapeworm were one.

Charles Thomas Munger
Former Executive Vice Chairman

The tapeworm, that's exactly -- wonderful phrase, tapeworm, I'll have to copy that.

Warren E. Buffett
Chairman, CEO & President

Well, it wasn't a phrase we were looking for.

Becky Quick

This question comes in from [Mark Blakely] in Tulsa. "This is for Warren and Charlie. When we discuss Berkshire, we often focus on the insurance operations and the largest noninsurance businesses, the Redwoods as you mentioned in 2019. However, Berkshire owns a large number of subsidiary businesses, most of which are never mentioned. Is there a point at which Berkshire becomes too large to manage? And should we have any concern over the lack of information for most of Berkshire's companies? Is there a time that could come when Berkshire is too large and complex?"

Warren E. Buffett
Chairman, CEO & President

Well, it's too large to do certain things, that's for sure. I mean it's not -- we can't spend our time looking for $100 million acquisitions. But we have a wonderful company in Fort Worth, and we had a marvelous man running it and he died recently. But he ran it -- he sold it to me 15 years ago, and he just basically ran it. And I couldn't find my way to the company.

We've got this terrific company that makes recreational vehicles in Elkhart -- based in Elkhart, Indiana. And we bought it 15 years ago. I've never been there. Maybe there's some guy in the closet just making up numbers to send to me every month. But I feel I understand the business pretty well, but I've never seen it. And the fellow that runs it, he likes running it, and he likes me keeping my nose out of it. And he'll let Greg in a little more than he'll let me.

But it's -- we've got a system that will work with wonderful businesses and wonderful managers. And it's up to us to find them, but it's also us (sic) to nurture them when we find them.

And if you get somebody like Paul Andrews who ran TTI and who build it from nothing, absolutely nothing, nobody ever heard of him. And the earnings have octupled during the period that he ran it for us. And he was happy. Employees were happy. He was a wonderful man. We were happy.

And I would call him at the end of the year and I'd say, "Paul, this place is -- you're shooting the lights out everything, and you should take a raise." And he said -- or bonus. He'd say, "Well, we'll talk about that next year, Warren." I mean he just loved -- he loved the business. I love Berkshire. He loved the business.

And I wasn't going to add anything by having him do a lot of bunch of reports about how much he's using in a way of carbon or anything. It just -- it's ridiculous to think of a guy like Paul Andrews behaving in an antisocial matter or anything of the sort. And we'd love to have more of those.

And obviously as we get bigger, they get harder to buy, but we've got a number in the place. And I don't think we bought our last one over time, but I certainly don't see anything in the near future at all.

But we're intensifying our interest a little bit in the ones we have by repurchasing shares. So our shareholders own more of those companies every year while we're -- assuming we're repurchasing shares, which is price-sensitive. Charlie?

Charles Thomas Munger
Former Executive Vice Chairman

Yes, I don't think we're getting too big to manage. Because we're different from practically every other big corporation in the United States in that we are so excessively decentralized. We have decentralized so much and we have so much authority in the subsidiaries that we can keep doing it for a long, long time as long as it keeps working. And I would say so far that our decentralization has caused more benefits than defects, but nobody seems to copy us.

Warren E. Buffett
Chairman, CEO & President

Well, that's absolutely true, but I would say this decentralization won't work unless you have the right kind of culture accompanying it.

Charles Thomas Munger
Former Executive Vice Chairman

Yes, but we do.

Warren E. Buffett
Chairman, CEO & President

Yes, we do, but it's dependent on us. I mean...

Charles Thomas Munger
Former Executive Vice Chairman

Greg will keep the culture.

Warren E. Buffett
Chairman, CEO & President

If we had a culture of people who are trying to make a lot of money for themselves in the next 5 years at the top, it would not have worked.

Charles Thomas Munger
Former Executive Vice Chairman

No, of course not. And the culture is part of it. But assuming we keep the culture, it can go on quite a ways.

Warren E. Buffett
Chairman, CEO & President

For a long, long time.

Charles Thomas Munger
Former Executive Vice Chairman

Long, long time. I think it may amaze everybody. By the way, the Roman Empire worked as long as it did because it was so decentralized.

Warren E. Buffett
Chairman, CEO & President

Charlie says to me, you won't know.

Charles Thomas Munger
Former Executive Vice Chairman

Yes.

Becky Quick

This question comes for -- from [Kevin Young.] It's for Ajit and Greg. "Warren spends his days reading, and his literature of choice is annual reports. How do each of you spend your days? What do you read? And how do you review investment decisions?"

Ajit Jain
Vice Chairman of Insurance Operations & Director

Well, in my job I spend a lot of my time reading deals that brokers and people send us, reading what they're proposing, trying to analyze them, having a point of view whether it is something that is of interest to us or not. I might add, I do not spend a lot of time reading annual reports because I'm not in the stock picking business per se. But in terms of keeping track of what's going on in the insurance business, that's what 90% of my reading is all about. Greg?

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

Yes. So generally in a day, what I'm going to focus on what I'm reading is really around our businesses, what industries they're in. I'm trying to understand what our competitors are doing, what's the fundamental risks around those businesses, how they're going to get disrupted. And then it always comes back to are we allocating our capital properly in those businesses relative to the risk we're seeing both in our business and in the industry. So a lot of time spent on that. And as that knowledge is built, sharing it back and forth with our management teams of those relevant subsidiaries and sort of fine-tuning it is really the approach.

Warren E. Buffett
Chairman, CEO & President

Both of these fellows can absorb information to an extraordinary degree. I mean they have -- and for one thing, they're terribly interested in it. I mean -- and it's theirs.

So I'm amazed at both of them, the degree which they just sort of know everything, and -- but they enjoy it. I mean they're not thinking about whether they'll get the next job that opens up at some huge place or anything like. Nobody leaves us basically, the ones we want.

But you really got to kind of be in love with your business, and that makes a huge difference. And that means that we've got to have the conditions that allow that love to flourish. And it wouldn't flourish under many -- with many organizations.

Becky Quick

This question comes from [Robert Miles] in Nebraska. "The trading apps, what do you think about Robinhood and other trading apps or fintech companies enabling all ages and experience to participate in the stock market?"

Warren E. Buffett
Chairman, CEO & President

Well, I'm looking forward to reading the S-1 on Robinhood. That's a big thing you file with the SEC when you are going to be offering securities. And it's -- it should become a very significant part of the casino aspect -- of the casino group that has joined into the stock market in the last year, 1.5 years. And I do want to see how they handle their source of income when they say they don't charge the customer anything. I mean -- it would be interesting to watch how they'll describe it, I mean.

But they have attracted -- maybe set out to attract, but they have attracted -- I think I read were -- 12% or 13% of their casino participants were dealing in puts and calls. I looked up on Apple's, the number of 7-day calls and 14-day calls outstanding. And I'm sure a lot of that is coming through Robinhood. And that's a bunch of people riding, they're gambling on the price of Apple over the like 7 days or 14. There's nothing illegal about it, there's nothing immoral.

But I don't think you build a society around people doing it. I mean if a group of us landed on a desert island, we knew that we'd never be rescued. And I was one of the group and I said, "Well, I'll set up the exchange over here. I'll trade our corn futures and everything around it."

I think the degree to which a very rich society can reward people who know how to take advantage essentially of the gambling instincts of the not only American public, worldwide public, it's not the most admirable part of the accomplishment. But I think what America's accomplished is pretty admirable overall.

And I think actually, America corporations have turned out to be a wonderful place for people to put their money and save, but they also make terrific gambling chips. And if you cater to those gambling chips when people have money in their pocket for the first time, and you tell them they can make 30 or 40 or 50 trades a day, and you're not charging any commission but you're selling your order flow or whatever, I hope we don't have more of it. I'll put it that way. And I will be interested in reading their prospectus. Charlie?

Charles Thomas Munger
Former Executive Vice Chairman

Well, that is really waving the red flag at the bull. I think it's just godawful that something like that would draw investment from civilized men and decent citizens. It's deeply wrong. We don't want to make our money selling things that are bad for people.

Warren E. Buffett
Chairman, CEO & President

But we've got the states doing it with the lottery.

Charles Thomas Munger
Former Executive Vice Chairman

I know, but that's bad too. It's very bad. It's very bad. One of the things that's wrong with it, it's getting respectable to do these things. The states are just as bad as Robinhood.

Warren E. Buffett
Chairman, CEO & President

Well, in a sense they're worse. I mean they're really taxing...

Charles Thomas Munger
Former Executive Vice Chairman

I know it is. I know. I know.

Warren E. Buffett
Chairman, CEO & President

Yes. They're taxing hope.

Charles Thomas Munger
Former Executive Vice Chairman

Not only that...

Warren E. Buffett
Chairman, CEO & President

And they don't get much in the way of taxes for...

Charles Thomas Munger
Former Executive Vice Chairman

The states in America replaced the Mafia as the proprietor in the numbers game. That's what happened.

Warren E. Buffett
Chairman, CEO & President

Yes.

Charles Thomas Munger
Former Executive Vice Chairman

They pushed the Mafia aside and said, "That's our business, not yours." It doesn't make me proud of my government.

Warren E. Buffett
Chairman, CEO & President

When I was a kid, my dad was in Congress. Dad had a numbers runner in the house office actually.

Becky Quick

I will ask this question from [Chris Fried] from Philadelphia, and whoever wants to take this on stage. "From raw material purchases by Berkshire subsidiaries, are you seeing signs of inflation beginning to increase?"

Warren E. Buffett
Chairman, CEO & President

Let me answer that. I think Greg can give more. We're seeing very substantial inflation. It's very interesting. I mean we're raising prices. People are raising prices to us, and it's being accepted. I mean it's not -- if we get...

Well, take homebuilding. I mean the cost of -- we've got 9 homebuilders in addition to our manufactured housing and operation, which is the largest in the country. So we really do a lot of housing. The costs are just up, up, up. Steel costs, just every day they're going up.

And there hasn't yet been -- because the wage stuff follows. I mean if the UAW writes a 3-year contract, we got a 3-year contract. But if you're buying steel at General Motors or some place, you're paying more every day.

So it's an economy really. It's red hot, I mean. And we weren't expecting it. I mean all our companies, when -- they thought when they were allowed to go back to work and all at our various operations, they -- we closed the furniture stores. I mentioned they were closed for 6 weeks or so on that region.

They didn't know what was going to happen when they opened up. And they can't stop people from buying things. And we can't deliver them. And they say, "Well, that's okay. Nobody else can deliver them either. And we'll wait for 3 months or something of the sort."

The backlog grows. And then we thought it would end when the $600 payments ended I think around August of last year. It just kept going. And it keeps going and it keeps going and it keeps going. And I get the figures every week. I call or -- [Bob] calls me and we go over day by day, what happened in the 3 different stores in Chicago and Kansas City and Dallas.

And it just won't stop. People have money in their pocket, and they pay higher prices. And when carpet prices go up in a month or 2, they announced a price increase for April, our costs are going up. Supply chain is all screwed up for all kinds of people. But it's a buying -- it's almost a buying frenzy, except certain areas you can't buy yet. You really can't buy international air travel and there's...

So the money is being diverted from a little somewhat piece of the economy into the rest. And everybody's got more cash in our pocket than -- except for -- meanwhile, it's a terrible situation for a percentage of the people. The -- this suit, I wore this suit for a year practically. And that means that the dry cleaner just went out of business. I mean nobody is bringing in suits to get dry cleaned. Nobody's bringing in white shirts to the place where my wife goes.

The small business person, if you didn't have takeout and delivery services for restaurants, you got killed. On the other hand, if you've got takeout facilities, same-store sales, Dairy Queen went up a whole lot and they adapted them. But it is not a price-sensitive economy right now in the least. And I don't know exactly how it shows up in different price indices, but there's more inflation going on than -- quite a bit more inflation going on than people would have anticipated just 6 months ago or thereabouts.

Charles Thomas Munger
Former Executive Vice Chairman

Yes. And there's one very intelligent man who thinks it's dangerous, and that's just the start.

Warren E. Buffett
Chairman, CEO & President

Greg, you probably are in a position to...

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

Yes, Warren, I think you touched on it. When we look at steel prices, timber prices, any petroleum input, fundamentally, there's pressure on those raw materials.

I do think something you've touched on, Warren, and it goes really back to the raw materials. There's a scarcity of product right now of certain raw materials. It's impacting price and the ability to deliver the end product. But that scarcity factor is also real out there right now as our businesses address that challenge.

And it may be the -- some of that's contributed or arisen from the storm we previously discussed in Texas, when you take down that many petrochemical plants in one state that the rest of the country is very dependent upon it. We're seeing it flow through both on price, but overall in scarcity of product, which obviously go together. But there's challenges, that's for sure.

Becky Quick

This question comes from [BJ Corala.] "What do you think of quants? Jim Simons' Medallion Fund has done 39% net of fees for 3 decades, which proves that it works. Will you consider hiring a quant lieutenant in Berkshire to work alongside with Ted or Todd?"

Warren E. Buffett
Chairman, CEO & President

Well, I'll say no to the second part, and I'll let Charlie have a go at the first part.

Charles Thomas Munger
Former Executive Vice Chairman

Well, that's rather interesting. The quant funds did fabulously on the short-term trading. They found little algorithms that worked to make them add predictive value. And as long as they kept working, they just kept doing it as long as the money kept coming in.

When they got using the same system just to finding similar algorithm and trying to do it mechanically for long-term stock predictions, the record was not nearly as good. And in the short-term stuff, they found that if they tried to do it too much, they destroyed their own advantage. So there was a limit on the amount they could make.

Warren E. Buffett
Chairman, CEO & President

But they were very, very smart.

Charles Thomas Munger
Former Executive Vice Chairman

Yes, they got very rich.

Warren E. Buffett
Chairman, CEO & President

Very, very smart.

Charles Thomas Munger
Former Executive Vice Chairman

Very smart and very rich. And very high grade, by the way, Jim Simons.

Warren E. Buffett
Chairman, CEO & President

But we're not trying to make money trading stocks, I mean, is the answer.

Charles Thomas Munger
Former Executive Vice Chairman

No.

Warren E. Buffett
Chairman, CEO & President

We don't think we know how to do it. I mean it isn't -- if we know how to make a lot more money-- trading stocks, we'd probably be trading stocks too. But we don't know how to do it, and we really don't trust anybody else to do it for us. That simple.

Becky Quick

This question comes from [Richard Warner.] "Mr. Buffett has espoused for decades the philosophy of buy and hold, or hold forever was too short of a time period. Is it a misperception on my part? Or has his philosophy changed? There seems to be a much greater turnover in the equity portfolio lately."

Warren E. Buffett
Chairman, CEO & President

I don't think there's that much turnover. I mean, but...

Charles Thomas Munger
Former Executive Vice Chairman

No, there's too much.

Warren E. Buffett
Chairman, CEO & President

What?

Charles Thomas Munger
Former Executive Vice Chairman

There's way too much.

Warren E. Buffett
Chairman, CEO & President

Yes.

Charles Thomas Munger
Former Executive Vice Chairman

It's still too much. It's the same amount.

Warren E. Buffett
Chairman, CEO & President

Yes. Yes. Yes, I'd agree with that. And the truth is we own -- our businesses are equities. So we own 400 billion or 500 billion maybe more in businesses. We don't turn them over at all. We don't resell businesses. We could probably -- well, we won't even get into that, what we could do. But we don't do it. And we do relatively little. And as Charlie says, we'd do better if we had -- not we. If I had done less.

Becky Quick

This is from [Daniel Gautier.] "Warren Buffett's 2013 letter in the middle of Page 21 made a prediction that in the next decade, you'll see lots of really bad news about pensions. Given recent events like COVID-19, and that 2023 is 2 years away, would Mr. Buffett like to comment or revise his 2013 prediction? Did COVID-19 delay, accelerate, eliminate or not change it?"

Warren E. Buffett
Chairman, CEO & President

Well, in a very limited and in a terrible way, COVID improves the pension position because if you -- you have less pensioners.

But the pension situation is terrible in a great many states. It's not so bad at the corporate level. And there's some multiemployer plans, obviously they've got problems.

But basically, it's a terrible problem for the states and, of course, some states. And states are going to go to Washington now and say, "We all want to get a lot of money because we had these terrible things happen to us during the pandemic," which they did. But some of those states have enormous pension deficits. And they'll come again if they got a check once. I mean make sure not to be a federal obligation, de facto or something, then a state situation -- it has not gotten better. It has not gotten better at all obviously.

And to a certain extent, the pension managers get more and more desperate as interest rates go down. So they'll listen to almost anybody that promises them -- they've always had the tendency anyway. But they'll listen to people that promise them that they're going to, one way or another, solve their problem for them. And that isn't going to work.

So it's a big, big, big problem. And of course, the real problem is let's just take a hypothetical state that has a huge pension deficit and maybe even has a cost of living factor in it, which has really been a killer. And you can move if you're an individual.

Charlie won't move to save that 500 million. He was not going to move to Nevada or some place.

But you can move if you're an individual, to some degree. particularly if you're rich and old and retired. And you're going to actually take away an asset from that kind of an environment and give it to another state that doesn't really need it as much. So you'll get adverse selection over time.

But if you're a company and you put a plant there, you can't move the plant in 5 or 10 or 20 years. So as the taxable base of individuals falls down simply because people select out of being a part of the population, you can't select out very well as a corporation. So you have to be very careful and think a long time before you go into some state with a huge pension deficit and a declining population. Because you're going to be the last man left, and the pensions won't go away.

And I don't think -- well, anybody with a short-term outlook doesn't worry about that. I mean, they're all "just get me past the next election, and I'm all right on that one." But the -- we don't want to be -- we're not going to say our plants are going to be on for 50 years in some place where the population gets halved; and the richer part gets cut dramatically, even more dramatically. And we still got a valuable plant there, and we got to keep operating. And we're going to -- one way or another, we're going to -- it's not going to be a good place to be.

Becky Quick

And we're almost out of time, so I'll make this the last question.

Charles Thomas Munger
Former Executive Vice Chairman

That's a good answer, Warren, It reminds me of my old Harvard law professor who used to say, "Let me know what your problem is, and I'll try and make it more difficult for you."

Becky Quick

So this one comes from [Jan Michael Olinger.] It's for Warren and Charlie. "I have one question, which is inspired by Charlie's mantra, 'You have to be a continuous learning machine.' So here's my question. What's the biggest lesson both of you learned during the last year?"

Warren E. Buffett
Chairman, CEO & President

Well, my biggest lesson is to -- has been to listen more to Charlie. He's been right on some things that I've been wrong on.

Charles Thomas Munger
Former Executive Vice Chairman

Well, I don't know. If you're not a little confused by what's going on, you don't understand it. It is -- we're in sort of uncharted territory.

Warren E. Buffett
Chairman, CEO & President

We enjoy, in a crazy way, actually seeing what happens. I mean -- and this is -- this has made us halfway through the movie, much more interested actually even more. This is an unusual movie. But we -- our basic principles of we start with the fact we don't want to disappoint the people who left their money with us. And things flow out of that. And we may disappoint people that don't make quite as much money.

But we don't -- and we've seen some strange things happen in the world in the last year and 15 months. And we've always recognized the fact stranger things are going to happen in the future. And I would say, if anything, it's reinforced our desire, well, to figure out everything possible, we can then make sure that Berkshire is, 50 or 100 years from now, every bit the organization and then some that it is now. Charlie?

Charles Thomas Munger
Former Executive Vice Chairman

Well, of course, that's the idea. I think it's pretty likely to work.

Warren E. Buffett
Chairman, CEO & President

Yes. Well, we wouldn't have spent 55 years at it unless we did.

Charles Thomas Munger
Former Executive Vice Chairman

Yes.

Warren E. Buffett
Chairman, CEO & President

Yes. And Becky, is that the last question?

Becky Quick

That's the last question.

Warren E. Buffett
Chairman, CEO & President

Okay well, in that case, we'll move on to the meeting. The other 3 fellows here can leave. It's not going to be that exciting. But we've got a script here even somewhat. I don't like scripts, but they -- not my nature.

And one of the proposers, for the 2 items on the proxy, is here in the building to present his argument personally. And the other one has recorded it. So we'll get to that in just a minute. But we offered both of -- I mean, they either could record or come, and I'm happy one of them came. So here we go, and the meeting will now come to order.

I am Warren Buffet, not that you didn't know at this time, Chairman of the Board of Directors of the company. I welcome you to the 2021 Annual Meeting of Shareholders.

Marc Hamburg is secretary of Berkshire Hathaway. He will make a written record of the proceedings.

Rebecca Amick has been appointed inspector of elections at this meeting. She will certify to the count of votes cast in the election of directors and the motions to be voted upon at this meeting.

The named proxy holders for this meeting are Walter Scott and Marc Hamburg. Does the secretary have a report of the number of Berkshire shares outstanding entitled to vote and represented at the meeting?

Marc David Hamburg
Senior VP, CFO & Secretary

Yes, I do. As indicated in the proxy statement that accompanied the notice of this meeting that was sent to all shareholders of record on March 3, 2021, the record date for this meeting, there were 639,747 shares of Class A Berkshire Hathaway common stock outstanding with each entitled to 1 vote on motions considered at the meeting; and 1,335,074,355 shares of Class B Berkshire Hathaway common stock outstanding with each share entitled to 1/10,000 of 1 vote on motions considered at the meeting. Of that number, 456,040 Class A shares and 663,442,069 Class B shares are represented at this meeting by proxies returned through Thursday evening, April 29.

Warren E. Buffett
Chairman, CEO & President

Thank you. That number represents a quorum, and we will therefore directly proceed with the meeting.

The first order of business will be a reading of the minutes of the last meeting of shareholders. I recognize Ms. Debbie Bosanek who will place a motion before the meeting.

Debbie Bosanek

I move that the reading of the minutes of the last meeting of shareholders be dispensed with and the minutes be approved.

Warren E. Buffett
Chairman, CEO & President

Do I hear a second?

Unknown Attendee

I second the motion.

Warren E. Buffett
Chairman, CEO & President

Motion is carried.

The next item of business is to elect directors. I recognize Ms. Debbie Bosanek to place a motion before the meeting with respect to election of Directors.

Debbie Bosanek

I move that Warren Buffett, Charles Munger, Gregory Abel, Howard Buffett, Stephen Burke, Kenneth Chenault, Susan Decker, David Gottesman, Charlotte Guyman, Ajit Jain, Thomas Murphy, Ronald Olson, Walter Scott and Meryl Witmer be elected as directors.

Unknown Attendee

I second the motion.

Warren E. Buffett
Chairman, CEO & President

It has been moved and seconded that the 14 individuals named in both motions be elected as directors. The nominations are ready to be acted upon. Mr. Hamburg, when you are ready, you may provide the voting results from Ms. Amick's preliminary report.

Marc David Hamburg
Senior VP, CFO & Secretary

Ms. Amick has reported that the ballot of the proxy holders in response to proxies that were received through last Thursday evening cast not less than 473,474 votes for each nominee. Ms. Amick's report also states that this number exceeds a majority of the number of the total votes of all Class A and Class B shares outstanding. The report also states that the certification required by Delaware law of the precise count of the votes will be placed with the minutes of this meeting.

Warren E. Buffett
Chairman, CEO & President

Thank you, Mr. Hamburg. The 14 nominees have been elected as directors.

The next 2 items of business relate to 2 shareholder proposals that are each set forth in the proxy statement that can be accessed at berkshirehathaway.com. If you haven't read that, those proposals, just go to berkshirehathaway.com because they're interesting proposals. And the proponents' views are set forth well there, and I think our views are set forth. And I welcome you reading it.

To get back to the script, the first proposal requests that the company publish an annual assessment addressing how the company manages physical and transitional climate-related risks and opportunities. The directors have recommended the shareholders vote against the proposal.

I will now recognize Tim Youmans, a representative of Federated Hermes, to present the proposal. I think we're connected up with Mr. Youmans.

Tim Youmans
Hermes Investment Management Limited

I thank the Chair. I thank the Chair of the Board and fellow shareholders. I'm Tim Youmans, Lead, North America EOS at Federated Hermes. Here today on behalf of item 2 cosponsors, Federated Hermes; CalPERS, the California Public Employees Retirement System; and CDPQ, Caisse de depot et placement du Quebec; and our combined millions of ultimate beneficiaries.

For well more than a year, the parent company has been unresponsive to the cosponsors' requests to discuss the parent company's lack of climate-related financial disclosures. In order to have some kind of dialogue with the parent company, we have co-filed a proposal that Berkshire Hathaway's Board issue a report annually, assessing how the company manages physical and transitional climate-related risks and opportunities, including climate-related financial reporting where material for subsidiaries and for the parent company; how the Board oversees climate-related risks for the combined enterprise; and the feasibility of the parent company and its subsidiaries establishing science-based greenhouse gas reduction targets, consistent with limiting climate change to well below 2 degrees. We ask that the annual assessment follows the recommendations of the Task Force on Climate-related Financial Disclosures, TCFD.

The Board argues that since it manages its operating businesses on an unusually decentralized basis, and there are a few centralized or integrated business functions, the Board believes that the shareholder proposal is inconsistent with Berkshire's culture. The cosponsors note, despite Berkshire's culture and decentralized management, shareholders can only purchase shares in the combined parent company entity. Shares cannot be purchased in the individual subsidiaries that may or may not have the climate disclosures that the Board cites in its opposition statement.

The company has more than $100 billion in cash equivalents. The cosponsors and many in the $54 trillion Climate Action 100-plus investor coalition want the parent company to put more resources into sustainability and in mitigating the financial impact of climate change and the energy transition.

The company's sustainability website consists only of links to 15 subsidiaries. We note the parent company has 60 subsidiaries. This is insufficient disclosure to shareholders who think that sustainability risks, especially climate risks, may be material to the parent company's long-term future prospects, of course, recognizing the company's strong past financial performance. No doubt, climate change and its energy transition to a low-carbon economy post a systemic risk to the economy.

The company's auditor, Deloitte, says on its website, "Climate change is not a choice. It's billions of them." We are all compelled to act. Deloitte does not assess climate change-related financial impacts in the company's audit. When asked by the cosponsors why climate change impacts are excluded from audits like Berkshire, Deloitte failed to provide any meaningful reply.

In his new book, former Berkshire director Bill Gates says companies accepting more risk is needed to avoid climate disaster. And shareholders and Board members will have to be more willing to share in this risk, making it clear to executives that they'll back smart investments even if they don't ultimately pan out. This is the Gates' position, and the Chair is one of 3 Gates Foundation trustees.

We ask the Board to take the cultural risk for a modest degree of centralization needed to issue the annual climate-related financial assessment. We all need to take action now to limit climate change impact on our long-term sustainability. We strongly urge Berkshire Hathaway shareholders to support item 2 as climate risk may be material to the parent company.

And we have a question for the Chair. Will you please change your mind and vote your personal shares in support of item 2? Thank you.

Warren E. Buffett
Chairman, CEO & President

Thank you, Mr. Youmans. The proposal is now ready to be acted upon. Mr. Hamburg, when you're ready, you may provide the voting results disclosed in Ms. Amick's preliminary report.

Marc David Hamburg
Senior VP, CFO & Secretary

Ms. Amick's report states that the ballot of the proxy holders in response to proxies that were received through last Thursday evening cast 131,376 votes for the motion and 385,336 votes against the motion. As the number of votes against the motion exceeds the majority of the number of votes of all Class A and Class B shares properly cast on the matter, the motion has failed. The certification required by Delaware law of the precise count of the votes will be placed with the minutes of this meeting.

Warren E. Buffett
Chairman, CEO & President

Thank you, Mr. Hamburg. The proposal fails.

Second shareholder proposal requests that Berkshire Hathaway companies annually publish reports accessing their diversity and inclusion efforts. Directors have recommended that shareholders vote against the proposal.

I will now ask that the audio tape provided by Meredith Benton, representative, be played to present the proposal.

Meredith Benton

Hello. I'm Meredith Benton. I'm speaking on behalf of a nonprofit organization As You Sow. And I'm also the CEO of the consultancy Whistle Stop Capital.

I formally move proposal #3, asking for Berkshire Hathaway to report on how it assesses diversity, equity and inclusion efforts, including the process that the Board follows for determining the effectiveness of its diversity and inclusion programs and how it assesses goals, metrics and trends related to recruitment, promotion and retention. What would it mean? If the majority of Berkshire's operating units weren't managing their diversity programs, it would mean that Berkshire companies are missing out on the benefits that an inclusive workplace culture can provide such as according to the studies: access to top talent, to good people, better understanding of consumer preferences, a stronger mix of leadership skills, informed strategy discussions and improved risk management.

Best practices in diversity and inclusion reporting exist and are increasingly standardized across companies. Berkshire companies can publish their workforce composition through their consolidated EEO-1 form. This form is already submitted to the Equal Employment Opportunity Commission, so it requires no additional effort on behalf of the companies to collect or reconcile. It is a universally disliked form, but it is standardized. And companies will often publish their EEO-1 along with an explanation of their own internal structures and ways.

72 of the S&P 100 companies publicly share or have committed to share this form. To my knowledge, no Berkshire company currently does, not one.

The release of workforce composition data is akin to a balance sheet, detailing diversity at a single point in time. Just as a balance sheet would by itself be insufficient to identify the strength of a company's financials, so too the EEO-1 by itself is insufficient and assessing the effectiveness of DEI programs.

The company's inclusion data, the hiring, retention and promotion rates of diverse employees must also be shared. Investors need to have a full understanding of the actual experience of Berkshire employees.

In theory, companies should want to share their retention data. If it's a good company to work for, people will want to stay. They should want to share their promotion data, in theory. If it's a company that hires good people and treats them well, those good people will ascend with mentorship in time.

70% of the S&P 500 currently share diversity and inclusion data at some level, 70%. Only 22% of Berkshire companies do at any level, and only 4 Berkshire companies speak to workplace equity with any meaningful depth. Berkshire is a serious outlier here.

Berkshire is famously decentralized. It's units operate independently. Yet if an issue isn't conveyed as important from headquarters, can we expect it to be prioritized by an operating unit?

Here's the thing. Mr. Buffett, Mr. Munger, Board members and the team at headquarters, you may each individually truly and genuinely hire, mentor and promote the best people for the job regardless of the gender, race, ethnicity, sexual orientation or any immutable characteristic. But we can't conclude that this is the mindset of each of your employees, managers and hiring directors.

Berkshire headquarters can't sit passively and hope that their independent units are addressing bias and discrimination in their workplace. Active management, proactive attention is needed.

In its statement in opposition to the proposal, the Board said. "Mr. Buffett, Berkshire's Chairman and CEO, has set the tone at the top for Berkshire and its employees for over 50 years." It also states, "Mr. Buffett has a record of opposing efforts, seen or unseen, to suppress diversity or religious inclusion."

Mr. Buffett holds extraordinary influence over his own companies and over the broader business community. He opposes efforts to suppress diversity. Given that, we ask for him to step forward decisively in his own inimitable words in his own inimitable way, to detail how important diversity and inclusion is to his companies, the expectations he has and the efforts he expects to see, the metrics that will be used to judge success.

Actions speak louder than words. But silence here speaks volumes. Thank you.

Warren E. Buffett
Chairman, CEO & President

Thank you. The proposal is now ready to be acted upon. Mr. Hamburg, when you are ready, you may provide the voting results disclosed in Ms. Amick's preliminary report.

Marc David Hamburg
Senior VP, CFO & Secretary

Ms. Amick's report states that the ballot of the proxy holders in response to proxies that were received through last Thursday evening cast 124,842 for the motion and 391,662 votes against the motion. As the number of votes against the motion exceeds the majority of the number of votes of all Class A and Class B shares properly cast on the matter, the motion has failed. The certification required by Delaware law of the precise count of the votes will be placed with the minutes of this meeting.

Warren E. Buffett
Chairman, CEO & President

Thank you, Mr. Hamburg. The proposal fails.

Debbie Bosanek

I move...

Warren E. Buffett
Chairman, CEO & President

Ms. Bosanek, yes?

Debbie Bosanek

I move this meeting be adjourned.

Unknown Attendee

I second the motion to adjourn.

Warren E. Buffett
Chairman, CEO & President

The motion to adjourn has been made and seconded. This meeting is adjourned.

And I would just like to add one final comment that we really hope -- and I think the odds are very, very good -- that we get to hold this next year in Omaha. And I hope that we get a record turnout of Berkshire shareholders. And we look forward -- we really look forward to meeting you in Omaha. This will be next April 30, but we'll be sure of that date a little later.
So thank you for watching. And we will see you next year, and hopefully in Omaha. Meeting's adjourned.