

Warren Buffett, Stop Using My Credit Card!

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By Janet Tavakoli

I like Warren Buffett. I even wrote a book about the financial crisis contrasting his principles of prudent finance with recent excessive leverage, bad lending, and malfeasance (*Dear Mr. Buffett*). Buffett is not a regulator, an altruist, a consumer advocate, or an elected official. As CEO and largest shareholder of Berkshire Hathaway, his goal is to maximize shareholder value.

U.S. capitalism has morphed into a financial oligarchy. If Buffett's choice is between getting along in the financial community or the public interest, public interest loses. But he didn't cause our financial crisis, and he spoke out in advance about excessive leverage and bad lending. The financial markets are now wildly distorted. Others have funding advantages Buffett can only dream about, so he [exploits an advantage](#) when it becomes available.

I have been a trenchant critic of [rampant financial malfeasance](#), and Buffett has only wished me well and told me to "keep writing." For my part, I try to keep in mind that we view the world through different lenses.

On October 25, 2009, when *BBC's* Evan Davis interviewed him, Buffett surprised me : [Click here to view the eight minute video](#). It started out so well, but after six minutes the interview went sideways. [Not shown in this clip [Buffett said](#) his \$5 billion investment in Goldman Sachs' preferred stock (plus free warrants) last year was, in part, a bet on a US government bailout.¹ He thought the U.S. taxpayer got a good deal, but we got a worse deal than Buffett negotiated, and as I explain [here, I feel taxpayers got chump change](#).]

@ 3:14 min: Buffett explains that if there were only 50 people on a fertile island, we wouldn't take the five smartest people out of the 50 and give them the most money and tax breaks for trading rice futures and speculating: "Hell no! We'd get everybody producing rice. The idea that people that move money around are some favored class—and they are in this country, even in terms of taxes—strikes me as getting pretty far away from where we should be."

@ 6:00 minutes: Buffett claims shareholder losses obviated moral hazard. *Not true*. In control frauds (first identified by [William K. Black](#)), financial institutions are destroyed, and shareholders lose. Only the *agents*: CEOs, CFOs, and highly paid employees [are enriched](#). Unlike Buffett, these agents are "stewards," not major owners. Moral hazard remains an intractable problem.

@ 6:25 minutes: Buffett claims taxpayers have not bailed out anybody, because tax rates have not gone up (yet), and "tax receipts are way down this year." Chinese and Japanese buying U.S. government bonds have bailed out financial institutions. *Not true unless we default or destructively print inflationary dollars*. Tax receipts are down because of *unemployment*. U.S. taxpayer credit bailed out financial institutions, and we will have to pay back our debts.

Imagine this scenario: Warren grabs my credit card and charges twelve suits. When I object that I don't want to bail out his wardrobe, he chuckles and says, *don't worry, you haven't paid anything yet. The bank that issued the credit card bailed out my wardrobe, and it hasn't even had time to charge you interest on my purchase.*

When I protest that I'll have to eventually pay off both the balance and accrued interest, he tries flattery. *You are so productive that by the time you have to pay this off, you'll have so much more wealth that you won't even notice these charges. You've always been good for it before, and you'll figure out how to pay!*

Don't fall for it.

Government debt, like your credit card, is a type of money. It must be paid off with our future taxes generated from our production (unless you wish to destroy the economy by printing excess money). The fruits of your labors should be used in the way you see fit.

We must stop subsidizing speculators with cheap funding and tax breaks. We have to hold people accountable for malfeasance, break up large financial institutions, and allow them to fail instead of bailing them out. ([Click here for my suggestions.](#)) As for high pay and tax breaks for speculators, even Warren Buffett says: *"Hell no!"* But he won't help us make changes. U.S. taxpayers will have to figure it out, or we will pay.



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Disclosure: Tavakoli is a Berkshire Hathaway shareholder.

¹ Buffett bought \$5 billion in Goldman Sachs's preferred stock paying a 10% annual dividend with warrants to buy \$5 billion in common stock at a price of \$115 anytime before October 1, 2013.

Recapped in BBC's mp3 podcast of Oct 26, 2009 @7:15 minutes in ([Click here to listen](#)):

Evan Davis: When you invested in Goldman Sachs (GS), what gave you the confidence to do that?

Warren Buffett: It was a very scary time.... I did not feel that we would be dumb enough really in a really basically prosperous country to let the malfunction (sic) of the financial engine bring down the country. But there was a time there where you wondered about that.

Evan Davis: I want to be clear here. When you made that investment, was it essentially a bet on GS performance or the performance of the authorities?

Warren Buffett: Both. Both. I mean you had to count...on Washington in effect not becoming so dysfunctional or blind to the problem or whatever it might be that it would let the whole country topple. But you also had to count on the fact that GS itself was basically a sound institution. [**JT Note:** Thanks to

government bailouts, cheap public funding, debt guarantees, new **bank holding company** status (guarding against a run on Goldman) before **switching its status to a protected financial holding company** on August 14, 2009, and more.]

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