

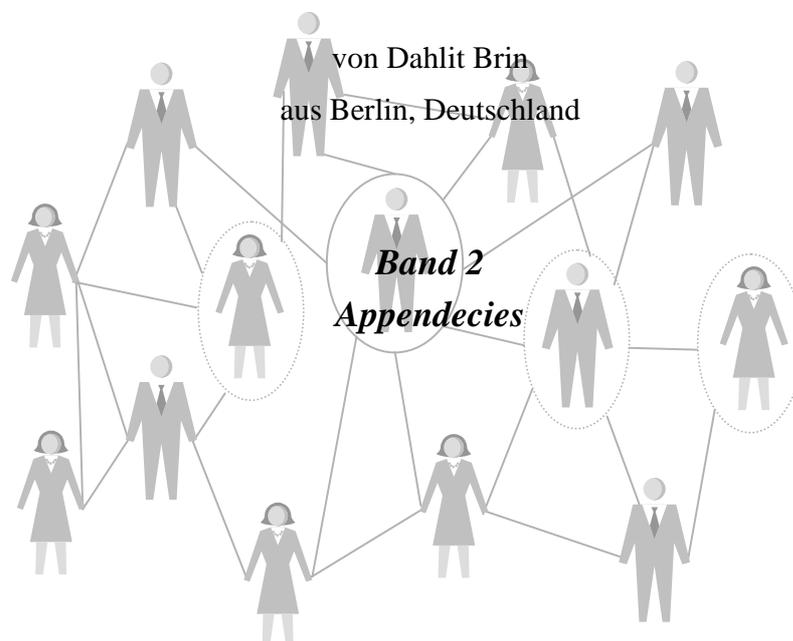
***How can Strategic People Networks (SPNs) be successful?***

***An inquiry into the causes and nature of social networks striving toward a mutual goal***

Vom Fachbereich Wirtschafts- und Sozialwissenschaften der Universität Lüneburg  
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## Appendix 1. SOCIAL COMPETENCE – THE FUNDAMENTALS OF GOLEMAN’S EQ

Daniel Goleman (1995, 1998) sees the basis of successful interaction between individuals in, what he calls “*Emotional intelligence (EQ)*”. He defines it as “... *the capacity for recognising our own feelings and those of others, for motivating ourselves, and for managing emotions well in ourselves and in our relationships*”.<sup>1</sup>

The author feels that many of modern society’s problems, such as violence; break-up of social structures, such as families; increasing drug abuse, specifically among young individuals; a surge in the general level of crime and violence was rooted in a grave lack of social competence. Due to these development he states that everywhere today, whether the USA, Europe or elsewhere “... *it is high time to know the emotional alphabet. In our day and age the strength and skills of the heart are just as important for our survival as those of the head [i.e. rationale]. Rationale and sympathy need to be balanced. The alternative would be a dying intellect, a rudder on which one cannot rely within a present which is as fast and ever changing as our current one.*”<sup>2</sup> Hereby he expresses his concern about the missing abilities of many individuals today to understand their emotions, to listen to and control them. He argues that it is due to this incompetence that individuals more than ever before are not able to communicate with one another, to resolve conflicts and reduce frustrations, but rather use means of physical and verbal violence. Furthermore, this lack of social skills also leads to ever growing levels of frustrations, which in turn leads persons to further use of violence – in fact representing a vicious circle.

He firmly believes that “... *our future can be more hopeful if we paid more attention to the issue of emotional intelligence, in order to increase our consciousness about ourselves, in order to be able to handle hurtful experiences better, and to keep the strength to hope and conscientiousness despite all the different frustrations we encounter; so that we will be able to be sympathetic and caring to others, be able to cooperate and strengthen social ties.*”<sup>3</sup>

Although this issue is not the focus of the current research paper it is helpful to recognise the origin of Goleman’s research. Based on his findings which he gathered over many years of research, he sought to provide the general public with a tool for enhancing their emotional well-being. This tool should help individuals to recognise their own emotions, to able to understand and handle them in a very conscious manner, and to thereby improve their social

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<sup>1</sup> Goleman, 1998, p.375

<sup>2</sup> Goleman, 1999, p.8

<sup>3</sup> Goleman, 1999, p.8

competence and emotional well being. In turn, due to the enhancement of the emotional state individuals are able to develop in other areas as well, including their professional lives. It is here where the link to our research lies.

Goleman strongly postulates that emotional intelligence can be learnt and that the basis for it roots in the upbringing and early childhood experience of individuals. Thereby he agrees with many others, such as Erikson (1995) and Riemann (1999). Further he urges the importance of teaching children the importance of being able to handle ones own and others' emotions and to train them the skills necessary to do so. *“If there is to be a solution [to the problem of lack in social skills] then the only solution is ... to prepare our youth appropriately for life. At the moment we leave the emotional education of our children purely to chance, which leads to increasingly catastrophic results.”*<sup>4</sup> However, clearly it is also necessary for adults to have these abilities and possible to acquire them (to a certain extent) as well.

Salovey (1990) divides Gardner's types of personal intelligence into the following five main categories:

1. **“Self-awareness”** – hereby he speaks of self-recognition and the ability to understand ones own emotions. One needs to understand and recognise an emotion once it surfaces, which is seen as the fundamental of emotional intelligence. It is the ability to monitor and reflect upon one's own emotions. Individuals who are not able to identify and understand their own emotions are subject to them and will be controlled by them. He also argues emotional self-awareness to be the basis for self-confidence.

Additionally, often our feelings are a warning mechanism or a guide, both with respect to positive and negative things. If we do not understand them and cannot read these signals we are likely to make wrong decisions in a variety of aspects of our life. Furthermore, if a person is not able to recognise and understand his or her own emotions, he or she will also not be able to understand those of others and act appropriately.

2. **“Self-regulation”** – it is important to handle emotions in a manner that is appropriate to the situation. This ability is based on the previous one – the ability to identify and understand these emotions in the first place. Goleman argues that those individuals who are not able to recognise and in the next step handle their emotions suitably will have

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<sup>4</sup> Goleman, 1999, p.14

greater problems in dealing with difficult situations, such as stress, grief and anger. On the other hand individuals who are able to identify and handle their emotions well will recoup faster from emotional distress and from “blows in one’s life”. Additionally he sees self-regulation as the foundation for the ability to be conscientious and delaying gratification to pursue one’s goals.

3. “**Motivation**” – here he refers to the ability to translate emotions into actions, to utilise and practically make use of emotions for a specific goal. This is essential for our ability to pay attention, for our motivation and creativity. The author claims that emotional self-control – the ability to suspend gratification and to suppress impulses – is the basis for every success. Persons who are able to put themselves into situations of “flow”<sup>5</sup> are able to achieve exceptional achievements of any kind. With this ability an individual is able to undertake any venture in a more productive and efficient manner. Goleman explains that and how only a person who is in touch with, understands and is able to utilise his or her emotions can be knowingly and consciously put him or herself into a situation of flow – this situation in which his maximum results are achieved.<sup>6</sup> In his words it means to use “... *our deepest preferences to move and guide us towards our goals, to help us take initiative and strive to improve, and to persevere in the face of setbacks and frustrations.*”<sup>7</sup> On the issue of self-motivation Münchhausen (2002) describes how individuals create their own barriers to motivation, the underlying reasons and traps of these. Furthermore he explicates how these can be overcome, aiming to thereby provide the readers with a guide for increasing their self-motivation abilities.
4. “**Empathy**” – is the ability to know what others feel. This is a further capability which can only develop once a person understands him or herself what he or she feels. Goleman sees the ability of emotional self-consciousness as the basis of what is referred to as “the judgement of human nature”. Only individuals who are empathetic recognise and understand the hidden signals and needs of others.
5. “**Social skills**” – Goleman explains that the ability to handle emotions is in essence mainly the ability to handle emotions of others. However, it seems plausible to suggest that the

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<sup>5</sup> „Flow“ refers to a state of mind in which an individual is deeply embedded into a situation and focused on his or her task at hand that he or she forgets everything else around him or her. This state is one of trance in which a person performs at his or her best because all his energies and abilities flow freely with no inhibitions.

<sup>6</sup> See Goleman, 1998, p.124 ff

<sup>7</sup> Goleman, 1998, p.376

ability to handle emotions well also includes the ability to handle ones own emotions well. The fundamental elements of social competence and incompetence are the basis for an individuals level of popularity, leadership skills and effectiveness in interpersonal interaction. Goleman states that those persons who are excellent in these skills will achieve outstanding results in all areas which require the smooth cooperation and interaction with others. Goleman calls these “*the social stars*”.<sup>8</sup> Besides the ability to handle emotions social skills also include the capability of “... *accurately reading social situations and networks; interacting smoothly; using these skills to persuade and lead, negotiate and settle disputes, for cooperation and teamwork.*”<sup>9,10</sup>

The author does explain that not all individuals who are “good with people” will strive in all these five categories. While someone may be very capable in intervening in stressful situations and calm others down, another person may be better in interacting with individuals from different cultural backgrounds. Furthermore, in his 1999 book he also explains that these abilities are also significantly influenced by neurological characteristics of the brain. However, no matter the neurological dispositions of an individual Daniel Goleman argues that *everyone can learn emotional competence.*

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<sup>8</sup> Goleman, 1999, p. 65 ff

<sup>9</sup> Goleman, 1998, p.376

<sup>10</sup> Goleman, 1999, p.65 ff; Goleman 1998, p.376

**Appendix 2. THE INITIAL STEPS OF THE DATA EVALUATION PROCEDURE**

The general questions are marked with “GQ” and the SPN specific questions by “SPNQ”. Further, with respect to the category “glue/ invisible ties”, “T” denotes the aspects connected to trust<sup>11</sup>, “SS” denotes those aspects that are connected to social skills, “NWS” refers to networking strategies, while “C” stands for communication in the operational section. These letters indicate the focus of the question. Table A.2.1 lists all the questions.

TABLE A 2.1: QUESTIONS TO BE ANSWERED FROM THE EMPIRICAL DATA

REASONS FOR AND GOALS OF SPNS							
TYPE OF QUESTION	QUESTION	RANKING					
		0	1	2	3	4	
SPNQ	How important is the individual as a person within the SPN? And hence, to what extent can the non-material desires be satisfied within the SPN?						
GQ	Is there one or more common goals that the SPN partners seek to reach together at the same time?						
SPNQ	How important is the exchange of information within the SPN?						
“GLUE”/ “INVISIBLE TIES”							
TYPE OF QUESTION	QUESTION	FOCUS	RANKING				
			0	1	2	3	4
GQ	Does/do the individual/s make active efforts in creating new contacts in their personal (non-work related) environment? Does/do the individuals adopt a methodological or strategic approach to networking in their personal (non-work related) environment?	NWS					
GQ	Does/do the individual/s make active efforts in creating new contacts in the work-related environment? Does/do the individual/s adopt a methodological or strategic approach to networking in the work-related environment?	NWS					
GQ	How much effort, if any, is made by the individual/s in collecting (relevant) information about a (potential) networking partner? Uhrig emphasises the need to do so (See chpt. 5 this paper, p.7)	NWS					

<sup>11</sup> See section 5.2.ii, “Networking skills”, p. 31 ff.

GQ	How much up-front investment into a relationship is made by the individual/s so that they can approach a specific potential partner more easily at a later stage? (See Uhrig, 2001; chpt.5 this paper, p.62 ff.)	NWS					
GQ	To what extent are the solutions "... or actions that ensure the longevity of the relationship" (See Klein and Milardo, 1993, chpt. 5 this paper, p.15)	NWS					
GQ	How good are the "team skills" of the individual/s?	NWS					
SPNQ	General impression of the strength and quality of the "invisible ties"	NWS					
SPNQ	How well do the SPN partners react to third party influence?	NWS					
GQ	Do the individuals seem to have an implicit knowledge about the structural properties or "of the dominant models of the types of relationships" (Allan, 1993, chpt. 5 this paper, p.5)	SS					
GQ	Do the individuals seem to have an explicit knowledge about the structural properties or "of the dominant models of the types of relationships" (Allan, 1993chpt. 5, this paper p.5)	SS					
GQ	How much does/do the individual/s enjoy the company of others, i.e. how "sociable" is the individual/s? Are they interested in relationships?	SS					
GQ	How high is the degree of empathy of the individual/s?	SS					
GQ	To what extent is there evidence of a "behavioural repertoire"? (Klein & Milardo, 1993, chpt. 5, this paper p.15)	SS					
GQ	To what extent is there evidence of "self-awareness", i.e. realising, recognising and monitoring one's own emotions, of the actors ? (See Goleman, 1999, chpt. 5 this paper, p.24)	SS					
GQ	How good are the self regulation skills of the person/s, i.e the ability to handle emotions in a manner that is appropriate to the situation ?See Goleman, 1999, chpt.5 this paper, p.25)	SS					
GQ	How good is the motivation of the person/s, i.e. the ability to translate emotions into actions, to utilise and practically make use of emotions for a specific goal? (See Goleman, 1999, chpt.5 this paper, p.25)	SS					

GQ	How good are the "social skills" , i.e. the ability to handle one's own emotions and those of others of the individual/s in general?	SS					
GQ	How well does/do the individual/s understand the basic needs and desires of each other and of other people in general?	SS, T					
GQ	How reliable does/do the individual/s seem to be?	T					
GQ	To what extent does there seem to be personal trust in others?	T					
GQ	To what extent does/do the individual/s have ontological trust?	T					
SPNQ	Are there mutual benefits to be gained from the co-operation?	T					
SPNQ	To what extent do the partners have some form of common ground?	T					
SPNQ	To what extent do the partners have shared norms and values?	T					
SPNQ	To what extent do the partners have a "common language"?	T					
SPNQ	To what extent do the partners have one or more mutual hobbies?	T					
SPNQ	To what extent do the partners have mutual interests?	T					
<b>OPERATIONAL ASPECT</b>							
TYPE OF QUESTION	QUESTION	RANKING					
		FOCUS	0	1	2	3	4
GQ	To what degree is there honest information sharing among the partners?	C					
GQ	How significantly does the geographical distance to social contacts adversely impact the relationship?						
SPNQ	To what degree does the communication between the actors seem to be frequent (e.g. talk-analysis, gossip and discussions - based on Allan, 1993, chpt. 5, p.5)? (0= no frequent communication, 1=there is some communication but not very frequent, ... 4 = very frequent)	C					
SPNQ	How well established do the behavioural rules seem to be within SPNs? (0 = no rules, 1= little rules, ... 4= very well established and defined behavioural rules)						
SPNQ	How good a networking strategy seems to exist for the SPN?						
SPNQ	How great is the degree of "give-and-take" between the members?						

SPNQ	How significantly does the geographical distance to social contacts adversely impact the SPN?						
SPNQ	Are there one or more defined mutual goals? (0 = absence of goals, 1= there seem to be some type of goal, but it's not clear exactly what it/they are, ... 4=evidence of very clearly defined and mutually agreed goals)						
SPNQ	Are the goals comparable to projects? (3 scale answer)						
SPNQ	Is there evidence that the members are also part of other SPNs? (3 scale answer)						
SPNQ	To what extent do the members have homogenous privileges and rights?						
SPNQ	How fast is the decision-making process within the SPN?						
SPNQ	To what extent are all partners able to make partial strategic decisions?						
SPNQ	To what extent are there mutual flows of exchange (of communication, tangible and intangible goods)?						

TABLE A 2.2: ASSESSMENT OF THE AVAILABILITY OF REQUIRED INFORMATION

Is there information on ...	Yes	No
... the importance of the individual as a person within the SPN? The extent to which the non-material desires be satisfied within the SPN?		
... whether there is one or more common goals that the SPN partners seek to reach together at the same time?		
... the importance of the information exchange within the SPN?		
... whether the individual/s does/do make active efforts in creating new contacts in their personal (non-work related) environment? Is there information about whether the individual/s adopt/s a methodological or strategic approach to networking in their personal (non-work related) environment?		
... whether the individual/s does/do make active efforts in creating new contacts in their personal (non-work related) environment? Is there information about whether the individual/s adopt/s a methodological or strategic approach to networking in their work related environment?		
... how much effort, if any, is made by the individual(s) in collecting (relevant) information about a (potential) networking partner?		
... how much up-front investment into a relationship is made by the individual(s)?		
... to what extent there are solutions "... or actions that ensure the longevity of the relationship"?		
... how good the "team skills" of the individual/s are?		
... the general impression of the strength and quality of the "invisible ties"?		
... how well the SPN partners react to third party influence?		
... whether the individuals seem to have an implicit knowledge about the structural properties or		

"of the dominant models of the types of relationships"?		
... whether the individuals seem to have an explicit knowledge about the structural properties or "of the dominant models of the types of relationships"?		
... how much the individual/s enjoy/s the company of others, i.e. how "sociable" is the individual/s? Is there information on whether the individuals are interested in relationships?		
... how high the degree of empathy of the individual/s is?		
... the existence and size of a "behavioral repertoire"?		
... whether the actors possess "self-awareness"?		
... how good the self regulation skills of the person/s is?		
... how good the motivation of the person/s is?		
... how good the "social skills" of the individual/s is in general?		
... how well the individual/s understand the basic needs and desires of each other and of other people in general?		
... how reliable the individual/s seem to be?		
... the extent to which there seems to be personal trust in others?		
... the extent to which the individual/s seems to have ontological trust?		
... whether there are mutual benefits to be gained from the co-operation?		
... the extent to which the partners have some form of common ground?		
... the extent to which the partners have shared norms and values?		
... the extent to which extent the partners have a "common language"?		
... the extent to which the partners have one or more mutual hobbies?		
... the extent to which the partners have mutual interests?		
... the degree of honesty of the information sharing among the partners?		
... how significantly the geographical distance to social contacts adversely impact the relationships in general?		
... the degree of frequency of communication between the actors?		
... how well established the behavioural rules within SPNs are?		
... how good a networking strategy for the SPN there seems to exist?		
... the degree of "give-and-take" between the members?		
... how significantly does the geographical distance to social contacts adversely impact the SPN?		
... whether there are one or more defined mutual goals?		
... whether the goals are comparable to projects?		
... whether there is evidence that the members are also part of other SPNs?		
... the extent to which the members have homogenous privileges and rights?		
... how fast the decision-making process within the SPN is?		
... the extent to which all partners are able to make partial strategic decisions?		

### Appendix 3. WARREN EDWARD BUFFETT (\*1930)



{Source: [http://www.askmen.com/men/business\\_politics/43\\_warren\\_buffett.html](http://www.askmen.com/men/business_politics/43_warren_buffett.html)}

#### **A.3.1 A brief description**

Warren Buffett is one of the most successful investors in history and said to be the most successful investor of the 20<sup>th</sup> century.

On August 30<sup>th</sup> 1930 “*The healthy baby arrived at the old Doctors Hospital in downtown Omaha into a family prominent for six generations in the city’s political and commercial endeavours.*”<sup>12</sup> He was born the second child, and only son, to a family with a high reputation without exceeding wealth. Due to his extraordinary, intelligence and analytical skills, combined with his self-confidence and moral support by his family and friends he generated enormous wealth on the stock market to become the richest person of the world, now having been taken over by Bill Gates.

Warren Buffett graduated from the University of Pennsylvania and continued his post-grad studies at the University of Columbia.

Warren Buffett is a purely self-made man. From early childhood on he embarked on various ventures ranging from delivering newspapers, selling beverages and renting out a used car. For some of his ventures he worked with a partner while working alone on others.

His interest in the stock market was sparked at an early age, probably also due to the fact that his father was a stockbroker as well. Due to his early successes he enlarged his investment activities by setting up a Partnership. This relatively small operation, was founded with initial investments made by friends and family. He later wrote Wall Street history by building up his

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<sup>12</sup> Kilpatrick, 2001, p.35

success story named 'Berkshire Hathaway'. Berkshire holds large stakes in a variety of businesses from various industries, among which are world-renown companies such as Coca Cola, McDonald's, Disney World, ABC TV, 'The Washington Post' and American Express.

### **A.3.2 Network structure**

#### A.3.2.i Family and contacts of his family (as of 2001)

Warren Buffett's

Paternal great-grandfather: Sidney H. Buffett

Paternal grandfather: Ernest Buffett

Maternal grandparents are mentioned but not their names.

Father: Howard Homan Buffett

Mother: Leila Stahl Buffett

Paternal uncle: Fred Buffett

Paternal aunt: Alice

Sister: Doris (Bryant)

Sister: Roberta (Bialek)

His nephew's wife: Jane Rogers

The father of his nephew's wife Jane: Roy Dinsdale

His step-father: Roy Ralph

His wife: Susan Thompson Buffett

His children:

His eldest child, is a daughter: Susan

His 2<sup>nd</sup> child and eldest son: Howard Graham

His second son: Peter

His grandchildren:

Susan's daughter: Emily

Howard's son: Howie Warren

Howard has another four children whom his wife brought into the marriage. Their names are not mentioned.

His cousins:

Clarence, who was killed during a car accident in 1937.

George Buffett

Katherin Grimm

A distant cousin: singer/songwriter Jimmy Buffett

Warren Buffett's in-laws:

His sister Doris's husband: Truman Wood

Father-in-law: Dr. William Thompson

Howard's wife: Devon

Peter's 1<sup>st</sup> wife: Mary

Peter's 2<sup>nd</sup> wife: Susan

Susan's ex-husband: Alan Greenberg

*“The first Buffett to reach Nebraska, Buffett's great-grandfather Sidney H. Buffett from Dix Hills on Long Island, New York, opened a grocery store on Omaha's Fourteenth Street on August 20, 1869. In the store's early days, the delivery wagon was mule drawn and the mules were kept in a stable behind the store.”<sup>13</sup>*

*“Ernest Buffett, Sidney Buffett's son, joined his father in working at the store February 1, 1894. The store was moved to Omaha's Dundee section in 1915. Ernest Buffett's son, Fred, joined his father in the business at 5015 Underwood on June 1, 1929. ... All the Buffetts were known as upright citizens.”<sup>14</sup>*

*“Warren's father edited the ‘Daily Nebraskan’ at the University of Nebraska, where he met Warren's mother, Leila, in 1924 when she came calling for a job to earn money for college. She had set type in her family's print shop and was a reporter for her father's weekly newspaper, the ‘Cuming County Democrat’, in West Point, Nebraska.*

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<sup>13</sup> Kilpatrick, 2001, p.35

<sup>14</sup> Kilpatrick, 2001, p.35

*Her father had bought that newspaper in 1905 and his family lived on a top level of the newspaper building.*

*Warren Buffett is the grandson of Ernest Buffett and the son of Howard Homan Buffett, who was a rock-ribbed Republican U.S. Congressman. In addition to Howard and Fred, Ernest Buffett had an older son Clarence, who was killed in an auto wreck in Texas in 1937, and a daughter, Alice Buffett, who never married and was a revered schoolteacher for years at both Benson High School Central High School in Omaha. Warren Buffett, through his Buffett Foundation, gives an award of \$ 10,000 each to 15 teachers every year in her honour. ...*

*Warren's father, Howard H. Buffett, was a stockbroker who founded Buffett-Falk & Company in 1931. He also sold diamonds to clients who wanted an inflation hedge. ...*

*Howard Buffett died April 29, 1964, of cancer at age 60.”<sup>15</sup>*

*“Warren Buffett's sister, Mrs. Doris Bryant, says of her father: ‘Mainly he had a fear of creeping socialism. And he worried about inflation. He was ahead of his time about inflation and wrote about it and was advising clients to hedge against it in 1932. He encouraged people to buy art and jewellery.’”<sup>16</sup>*

He was very close to his parents:

*“Buffett adored his father, who referred to Warren as ‘Fireball’ because of his energy and precociousness.*

*‘Yes, he called him Fireball and Warren called him Pop. They were the best of friends. When he died, Warren cried for days,’ Mrs. Leila Buffett once recalled. Buffett was 33 years old when his father died and 66 when his mother died.*

*Buffett remained close to his mother, and once at the height of the Salomon crisis, flew home from New York just in time to be with her when she was honoured as Woman of the Year by the Nebraska Chapter of the Arthritis Foundation. Quipped Buffett, ‘She’s been woman of the year for the last 87 years.’”<sup>17</sup>*

*“Warren Buffett's mother was Leila (Stahl) Buffett, a lively woman with an easy, humorous manner who walked into the Berkshire annual meeting in 1992 and said, ‘I’m still here.’ Buffett's mother died August 30, 1996, at age 92, on her son's 66<sup>th</sup> birthday.*

<sup>15</sup> Kilpatrick, 2001, p.35 ff.

<sup>16</sup> Kilpatrick, 2001, p.37

<sup>17</sup> Kilpatrick, 2001, p.55 ff.

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*Leila Buffett, twice widowed, took back the Buffett name after the death of her second husband, Roy Ralph, because she was married to Congressman Buffett for more than three decades.”<sup>18</sup>*

*“The Buffetts have three energetic, grown children: Susan Buffett, born July 30, 1953; Howard Graham Buffett, born December 16, 1954, (named after Buffett’s father, Howard Buffett, and Ben Graham) and Peter Buffett, born May 4, 1958.”<sup>19</sup>*

*“While Susan was in Washington, she and her daughter, Emily, often saw Katharine Graham, longtime chairman of The Washington Post Co. ‘I remember Mrs. Graham being impressed with Emily because she could eat avocados and caviar. That’s unlike my father and me. All we want is hamburgers,’ Howard Buffett said.”<sup>20</sup>*

*“A cousin of Buffett’s recalls family dinners as often centering around rapid-fire political talk. ‘His sisters have about the same IQ he does,’ said Katherine Grimm of Akron, Ohio. ‘If they were at dinner someone would toss out a political idea and the next would say, ‘defend your position’”<sup>21</sup>*

*“He often had lunch with the Carl Falk family. Carl Falk and Howard Buffett had run the Buffett-Falk brokerage firm. In June, 1943, young Buffett rejoined his family in Fredericksburg, but went back to Omaha for much of the summer, staying at a Presbyterian manse while its minister was away. ...”<sup>22</sup>*

*“Those early days for Buffett were also courting days. On April 19, 1952, at Dundee Presbyterian Church, he married Susan Thompson of Omaha, a petite brunette with a winning smile and manner, the popular daughter of Dr. William Thompson. ‘We used to call him ‘Wild Bill’,’ says Buffett’s son, Howard. Thompson was a psychology professor at the University of Omaha, which later became part of the University of Nebraska. Susan Thompson, whose parents knew Buffett’s parents, attended Northwestern University where*

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<sup>18</sup> Kilpatrick, 2001, p.38

<sup>19</sup> Kilpatrick, 2001, p.171

<sup>20</sup> Kilpatrick, 2001, p.171

<sup>21</sup> Kilpatrick, 2001, p.54

<sup>22</sup> Kilpatrick, 2001, p.58

she roomed with Buffett's sister, Bertie. It was she who introduced Susan Thompson to Warren Buffett."<sup>23</sup>

*"Both grandparents on Mrs. Buffett's mother's side were deaf. Her grandfather wrote one of the two sign language dictionaries. The royalties from the dictionary go to Gallaudet University in Washington, D.C. Her uncle was head of the California School for the Deaf which Warren and Susie Buffett visited on their honeymoon."*<sup>24</sup>

*"Warren and Susan Buffett, who grew up about a mile from one another, have three children. After the children were grown, and shortly after their 25<sup>th</sup> wedding anniversary, Buffett and his wife followed their own paths and have lived apart since late 1977. Mrs. Buffett moved to San Francisco and still lives there. She and her husband remain on very close terms. In 1991 she was named to Berkshire's board, replacing Ken Chace of Maine, who retired.*

*Astrid Menks, a vivacious woman 17 years younger than Buffett and once a hostess in the same café where Buffett's wife sang, has lived with Buffett since 1978, the year after Mrs. Buffett left for San Francisco. Buffett and Astrid Menks live together in the standard sense of the term living together.*

*'Astrid was not around until after my mother left for San Francisco,' said Buffett's daughter, Susan Buffett.*

*Buffett and his wife see each other about once a month and at Christmas with the family at Laguna Beach. She travels with him on many non-business trips.*

*'My dad was so involved with his work, which is his fun. My mother had a very different life. We have such great parents. They are very affectionate. They still have strong relations. Once the kids were raised, my mother didn't want to sit home,' Buffett's daughter said.*

*Buffett's wife was interested in her musical career and in travel.*

*Buffett, his wife and Ms. Menks all showed up at a party held for shareholders at Borsheim's, the jewellery store Berkshire owns, the day before the annual meeting in 1990. As usual they were all cordial to one another and have attended the same annual meeting events every year. The three send presents to relatives from 'Warren, Susie and Astrid.' ...*

*Astrid Menks and Buffett are clearly very close. Buffett has given her bejewelled mementos, including a gold piece in the form of a Berkshire stock certificate, and other gifts, some bought at Borsheim's. Astrid Menks has been a Berkshire shareholder for many years.*

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<sup>23</sup> Kilpatrick, 2001, p.70

<sup>24</sup> Kilpatrick, 2001, p.70 ff.

*Buffett has said his arrangement with his wife and Astrid Menks is unusual. 'But if you knew everybody well, you'd understand it quite well.'*"<sup>25</sup>

*"Truman Wood, an Omaha native, married Doris Buffett in the early 1950s. They were divorced in 1965. Wood died in Fort Lauderdale, Florida, in 1998."*<sup>26</sup>

*"Peter Buffett and his wife, Jennifer, stand outside Warren Buffett's home, where Peter stayed while preparing for his concert at the Rose Blumkin Performing Arts Centre. Sounding like his father, Peter said 'Its home and its cheaper than a motel.'"*<sup>27</sup>

*"Howard Buffett's wife, Devon, came into the marriage with four children. The couple added Howie Buffett. Howie Buffett's middle name is Warren and it may be that he has inherited the family's financial genes."*<sup>28</sup>

These were the limited partners who started with Buffett's 'Buffett partnership' in 1956:

<i>"Charles, E. Peterson, Jr.</i>	<i>\$5,000 (friend)</i>
<i>Elizabeth B. Peterson</i>	<i>\$25,000 (Charles's mother)</i>
<i>Doris B. Wood</i>	<i>\$5,000 (sister)</i>
<i>Daniel J. Monen, Jr.</i>	<i>\$5,000 (attorney friend)</i>
<i>William H. Thompson</i>	<i>\$25,000 (father-in-law)</i>
<i>Alice R. Buffett</i>	<i>\$35,000 (aunt)</i>
<i>Truman S. Wood</i>	<i>\$5,000 (brother-in-law)"</i> <sup>29</sup>

*"Howard has recounted a time when as county commissioner he backed a project to bring basketball immortal Michael Jordan to Omaha for two days of events on August 23, 1990. ... Howard, who had worked for 18 months to organise Jordan's trip, showed Jordan the long list of activities and Jordan said, 'Man, I'm not doing all this stuff.'*  
*Howard said, 'I was about to die.'*

*Then Jordan winked and after two full days of activities, which raised \$47,000 for youth agencies, told Howard, 'Howie, I want you to remember one thing. You really owe me one.'*"<sup>30</sup>

<sup>25</sup> Kilpatrick, 2001, p.72

<sup>26</sup> Kilpatrick, 2001, p.88

<sup>27</sup> Kilpatrick, 2001, p.174

<sup>28</sup> Kilpatrick, 2001, p.179

<sup>29</sup> Kilpatrick, 2001, p.88

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*“In 1996 Peter Buffett performed at Omaha’s Rose Blumkin Performing Arts Center at a benefit for s Institute for Transplant Awareness. Actor Robert Redford’s son underwent two liver surgeries at the University of Nebraska Medical Centre in 1993 after being on a national organ transplant waiting list for seven months. Since then Robert Redford has led efforts to inform people about organ donation. Both Redfords attended the benefit.”<sup>31</sup>*

*“It’s Buffett - double f, double t - as in singer/songwriter and author Jimmy Buffett. There must be a strong business gene that runs in the family. ...*

*In any event, Warren and Jimmy, of Palm Beach Florida, are distantly related. Warren’s son, Peter, a musician, says it took the family a long while to discover Jimmy Buffett was a cousin.*

...

*Despite the lack of absolute proof that they’re related (as of press time, no DNA testing had been conducted), Warren and Jimmy have become friends. While Jimmy insists Uncle Warren doesn’t slip him any investing tips, the two have been known to break out in song. ‘I think he’s angling to get into my will,’ the billionaire Buffett jokes. ‘But the way things are going, I’d rather be in his.’”<sup>32</sup>*

*“Early in 1996 I was invited to the 40<sup>th</sup> birthday parry of my nephew’s wife, Jane Rogers. My taste for social events being low, I immediately and in my standard gracious way began to invent reasons for skipping the event. The party planners then countered brilliantly by offering me a seat next to a man I always enjoy, Jane’s dad, Roy Dinsdale [a Kansas Bank director and chairman of Pinnacle Bancorp Inc.] - so I went.”<sup>33</sup>*

*“Holiday decorations impresario Christopher Radko, who has decorated the White House foyer and Vice President Al Gore’s home, is a friend of Buffett’s daughter Susan. They met when Radko made an appearance at Borsheim’s and they have stayed in touch. He is not a shareholder, but was a guest of Buffett’s at 1999 annual meeting festivities.”<sup>34</sup>*

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<sup>30</sup> Kilpatrick, 2001, p.172 ff.

<sup>31</sup> Kilpatrick, 2001, p.174

<sup>32</sup> Kilpatrick, 2001, p.186 ff.

<sup>33</sup> Kilpatrick, 2001, p.393

<sup>34</sup> Kilpatrick, 2001, p.640 ff.

*“Richard Kimmel, an orchard owner in Nebraska City, Nebraska, was a client of Buffett’s stockbroker father, Howard Buffett. He later invested with Warren Buffett’s partnership.”<sup>35</sup>*

*“Casper Offutt was a close friend of Truman Wood, who married Buffett’s older sister, Doris.”<sup>36</sup>*

*“George Buffett, of Albuquerque, New Mexico - Warren Buffett’s first cousin - is the son of Clarence Buffett. Clarence Buffett - the eldest son of Ernest Buffett - was in the oil business in different states and died in a car wreck in Alvin, Texas in 1937.*

*But George Buffett’s fortunes would pick up thereafter. He was encouraged to start his own business by his mother, Irma, who died at 95 in 1993.”<sup>37</sup>*

#### A.3.2.ii Network in general (i. Network size & ii. Diversity)

*“Buffett, left, and Berkshire Vice Chairman Charles Munger conduct Berkshire’s Annual Meeting in 1999. The meeting lasts 5-10 minutes. The questions go on most of the day.”<sup>38</sup>*

*“He was always saying he didn’t need it,’ recalls William O’Connor, a vice president of Mutual of Omaha who had been an IBM salesman for 30 years. In his early days, O’Connor made the strenuous sale to Buffett.”<sup>39</sup>*

*“Buffett’s friend, Michael Yanney, chairman of America First Capital Associates in Omaha, refers to that era as a time when ‘greed on Wall Street exceeded its intellect.’”<sup>40</sup>*

*“Berkshires CEO Warren Buffett, right, and General Re’s CEO Ron Ferguson announced on June 19, 1998 in New York that Berkshire would buy General Re for about \$22 billion in Berkshire stock.”<sup>41</sup>*

<sup>35</sup> Kilpatrick, 2001, p.651

<sup>36</sup> Kilpatrick, 2001, p.651

<sup>37</sup> Kilpatrick, 2001, p.653

<sup>38</sup> Kilpatrick, 2001, p.8

<sup>39</sup> Kilpatrick, 2001, p.10

<sup>40</sup> Kilpatrick, 2001, p.13

<sup>41</sup> Kilpatrick, 2001, p.17

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“*Ferguson might have anticipated opposition, in part because of Buffett’s well-advocated opposition to the use of stock options as an executive incentive. James Gustafson, General Reinsurance’s president and chief operating officer, promptly resigned, and sources say that a number of other senior executives aspire now to nothing more than retirement.*”<sup>42</sup>

“*John Steggles, the former president of General Re subsidiary Herbert Clough, recalls how Buffett and Ferguson met in 1985:*

*‘GEICO under (Jack) Byrne’s direction was now thriving and Warren had become the biggest individual stockholder - he was also getting more involved in reinsurance deals - General Re was heavily involved with GEICO and Jack Byrne and I thought it would be beneficial all around if Warren Buffett and the General Re Chairman knew one another - so I arranged a private room dinner at my New York Club - The Metropolitan Club – (1 East 60<sup>th</sup> Street). I invited Frank Munson, Jack Byrne, Warren Buffett and Frank who was then Chairman of General Re who brought Ron Ferguson who I think was then President and Director. The date was early February 1985. Warren arrived considerably late.’*

*It turned out Buffett had been meeting with 20 or so people including Leonard Goldenson, the head of ABC-TV, on negotiations for Cap Cities to buy ABC-TV. The negotiations got sticky but were resolved. So Buffett was late to the General Re dinner.”<sup>43</sup>*

“*The company [DP Mann Holdings], founded by David Mann in 1984, had 1998 premiums of about \$390 million. ...*”<sup>44</sup>

“*Salomon spokesman Robert Baker, who spoke with Buffett often advertised and more. Every time I told him something he was waiting at the end of the sentence for me ... and his moral compass is due North.*”<sup>45</sup>

“*This was the second time, not the first, that Buffett rescued Salomon. ...*

*Buffett began preparations for Sunday’s dramatic board meeting where he accepted the resignations of Salomon’s top executives: John Gutfreund, the chairman once described as ‘King of Wall Street’; Thomas Strauss, president; and John Meriwether, Salomon Brothers*

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<sup>42</sup> Kilpatrick, 2001, p.19

<sup>43</sup> Kilpatrick, 2001, p.25

<sup>44</sup> Kilpatrick, 2001, p.25

<sup>45</sup> Kilpatrick, 2001, p.30

vice chairman - key men who admitted knowing of the violations but who failed to report them. ...

In the midst of this chaos, Buffett convinced U.S. Treasury Secretary Nicholas Brady to reverse a major portion of a potentially crippling, five-hour-old ban on Salomon's highly profitable government securities trading.

Buffett, already ensconced in Gutfreund's 43<sup>rd</sup> floor office with a new phone line, next went out to meet the press. He won them over in a split second by saying, 'I will attempt to answer questions in the manner of a fellow who has never met a lawyer. We'll stay as long as you wish.' ...

The next day Buffett went to Washington to meet with regulators and to continue his fast-paced mission to save Salomon."<sup>46</sup>

"When Buffett was 16, he and a friend, Don Danly, 17, who also was attending Wilson, bought a 1928 Rolls Royce for \$350 and rented it out for \$35 a day.

Their classmate, Norma Jean Perna, who was dating Danly at the time, recalls bringing the car back: ..."<sup>47</sup>

"When Buffett visited them in Pensacola, Danly and his wife, Vera, picked him up and brought him to their home overlooking Mackey Cove."<sup>48</sup>

"Danly's former wife, Charlotte Colby Danly, of Connecticut, recalls getting to know Buffett when he was the best man at her wedding.

'I was 19 and Warren and Susie were recently married.' she recalled.

Over the years the Danlys occasionally visited the Buffetts in Omaha. 'I remember Susie and Peter jamming on a piano, long after midnight,' Mrs. Danly said.

Years later they attended Buffett's 50<sup>th</sup> birthday party at the Metropolitan Club in New York.

'There were (business) leaders from all over there. Gary Cooper's daughter, Maria, an artist, was there who is married to Byron Janis, the famous classical pianist .... Buffett's friend, Fred Stanback of Salisbury, North Carolina, a longtime Berkshire investor and Buffett friend, was there. (Fred Stanback is the son of Fred Stanback, Sr., and the nephew of Tom Stanback, the founder of the Stanback Headache Powder company where Fred once worked. ... Fred Stanback, the best man at Buffett's wedding invested \$125,000 in 1962 in the Buffett

<sup>46</sup> Kilpatrick, 2001, p.31 ff.

<sup>47</sup> Kilpatrick, 2001, p.40

<sup>48</sup> Kilpatrick, 2001, p.45

*Partnership. ...)* Susie had written a song for Warren on his birthday and sang it with her piano accompanist from San Francisco. His birthday cake was in the shape of a Pepsi, which he drank at the time. It was one of the most memorable of nights.”<sup>49</sup>

“Conine, president of J. Bragg women’s apparel department store chain in Omaha and Lincoln, before his death in 1993, recalled that Mrs. Buffett once told him that when she was in her late 70s, Buffett gave her both an exercise bike and a Cadillac. ‘I have 34,000 miles on the bike and 5,600 miles on the Cadillac,’ Mrs. Buffett quipped.”<sup>50</sup>

“‘While most youngsters were content to get sodas out of machines and never give things a further thought, Buffett was retrieving the discarded bottle caps from soda pop machines, sorting and counting them to find out which soda brand was really selling,’ says Berkshire shareholder Irving Fenster of Tulsa, Oklahoma, one of Buffett’s early investors.”<sup>51</sup>

“... recalls Marie Madsen, his second grade teacher.”<sup>52</sup>

“Kathryn Haskell Smith, recalling a story her deceased sister Carolyn Haskell Hallquist told her, said, ‘He wanted to be around the guys and he would play basketball with them and then while the others were still playing, he’d be over reading the Wall Street Journal. The others would just say, ‘That’s Warren.’ ...

*It was Carolyn Haskell whom Buffett often dropped over to see when the Buffett and Haskell families lived a few blocks from one another in the Country Club section of Omaha. ...*

*Mrs. Smith knew the Buffett family as a result of a friendship that her father, John Haskell, and Buffett’s father from their days at the University of Nebraska. For years Haskell’s stockbroker was Howard Buffett.*”<sup>53</sup>

“Buffett told L.J. Davis (‘New York Times Magazine’, April, 1990) about his days in Fredericksburg, ‘I was miserably homesick. I told my parents I couldn’t breathe. I told them not to worry about it, to get themselves a good night’s sleep, and I’d just stand up all night.’

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<sup>49</sup> Kilpatrick, 2001, p.46 ff.

<sup>50</sup> Kilpatrick, 2001, p.50

<sup>51</sup> Kilpatrick, 2001, p.50

<sup>52</sup> Kilpatrick, 2001, p.51

<sup>53</sup> Kilpatrick, 2001, p.52

When he was 13, Buffett ran away briefly from his Washington, D.C., home. 'He ran away with a friend, Roger Bell. I think they were picked up by the police,' his sister Doris Bryant recalls.

Buffett's escapade had to be a little different and of course business related. He ran away to Hershey, Pennsylvania, where he was sent home by the police. Buffett, Bell and another friend had the idea of earning a little money caddying at a local golf course. Also he had the idea of touring the Hershey chocolate plant and getting a free candy bar. But he didn't tour the plant and apparently didn't consider buying the company.

Buffett told this story to 'Atlanta Constitution' business writer Melissa Turner who asked him if he might sample Hershey stock some day. His reply: 'I've driven a car all my life, but I haven't bought any car companies.'"<sup>54</sup>

"... Buffett at one point delivered 500 newspapers on five paper routes, mainly to apartment complexes, according to Robert Dorr of the 'Omaha World-Herald'."<sup>55</sup>

"Buffett once wrote a Wilson teacher, Miss Grace Carter (letter of June 26, 1998) in part: ..."<sup>56</sup>

"During his high school days, he pursued Carolyn Falk of Omaha, but so too did Walter Scott, now head of the Peter Kiewit Sons' conglomerate, who married her. 'Unfortunately, the best man won,' Buffett says."<sup>57</sup>

"At Penn, Buffett became friends with Harry Beja. 'The two of them matched A+s in Industry 1, but Beja couldn't help but notice how much harder he worked in the course than Buffett had.'"<sup>58</sup>

"About this time he rounded up 220 dozen golf balls and sold them to Jerry Orans for \$1,200."<sup>59</sup>

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<sup>54</sup> Kilpatrick, 2001, p.58 ff.

<sup>55</sup> Kilpatrick, 2001, p.59

<sup>56</sup> Kilpatrick, 2001, p.62

<sup>57</sup> Kilpatrick, 2001, p.62

<sup>58</sup> Kilpatrick, 2001, p.63

<sup>59</sup> Kilpatrick, 2001, p.63

*“It is said at the time Graham was teaching him, he believed young Buffett would become the greatest financial mind of his time.*

*Buffett made an A+ under Graham, according to Jim Rogers, who taught finance at Columbia, and John Burton, former dean of the Columbia Business School. Indeed, it is said that Buffett made the only A+ under Ben Graham, but that feat is not documented.”<sup>60</sup>*

*“Bill Ruane, a Harvard Business School graduate who became interested in the Columbia’s Ben Graham and David Dodd, took one of Graham’s courses and thus became a classmate of Buffett’s in 1951. Today Ruane heads the Ruane, Cunniff & Co. investment management firm, runs the Sequoia Fund (which has large investments in Berkshire, and other stocks), is also a director of Washington Post Co. and was a director of GEICO until Berkshire bought the rest of GEICO it didn’t already own.*

*Ruane, who has joked that the only difference between himself and Buffett is billions of dollars and 100 points of IQ says a kind of intellectual electricity coursed between Graham and Buffett and that the rest of the class was a rapt audience.”<sup>61</sup>*

*“At Columbia, Buffett ran into a friend from Nebraska, Bill Christensen, and discovered the two were dating the same girl. Buffett told Christensen he’d back out of the situation.*

*Christensen, a history professor retired from Midland College in Fremont, Nebraska, laughed, ‘That girl told me he’d be a millionaire someday.’ Christensen said the woman married someone else, lives in Colorado, and he has kidded her over the years about not marrying Buffett.”<sup>62</sup>*

*“‘Between 1951 and 1954, when I was pestering Ben Graham for a job (he turned me down when I got out of school, even though I offered to work for him for nothing), he mentioned me to Bill Rosenwald (son of Julius Rosenwald who developed Sears, Roebuck into a mass merchandiser) with the result that I received an exploratory letter about going to work for the family. I couldn’t follow through at the time because National Guard obligations kept me in Omaha. I will never know if Ben was trying to do Bill Rosenwald favour, or whether he was just trying to get me off his own doorstep.”<sup>63</sup>*

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<sup>60</sup> Kilpatrick, 2001, p.636

<sup>61</sup> Kilpatrick, 2001, p.67

<sup>62</sup> Kilpatrick, 2001, p.67

<sup>63</sup> Kilpatrick, 2001, p.72 ff.

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*“Graham’s wife, Estelle, invested \$20,000 with Buffett early on.”<sup>64</sup>*

*“Both Graham and his partner, Jerome Newman, died wealthy. ...*

*In addition to Buffett, the Graham-Newman hired Walter Schloss and Tom Knapp who became famous value investors.*

*Irving Kahn, head of Kahn Brothers & Company, Inc. in New York, worked for Graham for 27 years at Columbia and Graham-Newman, and recalls young Buffett at Graham-Newman as Graham’s prized protégé.”<sup>65</sup>*

*“‘I first met him when he came home after working for Ben Graham,’ recalls William O’Connor, the former Mutual of Omaha to know Buffett in investment club circles in Omaha. ‘I invited him to our investment club. Like most of us he was about our age of 24, but unlike us he was so profound when it came to business and finance. He was so well received we invited him back the next year and each time he played a little penny-ante poker and he left some small sums. He would say it was against his better judgment, but frequently said, ‘I’ll call.’”<sup>66</sup>*

*“Henry Brandt, Harvard’s top student in 1949 and long a senior vice president with Shearson Lehman Hutton ... Brandt and Buffett were friends from the early days and their families have remained friends since. ... ‘So Buffett has slept in my bed,’ laughs Roxanne Brandt.”<sup>67</sup>*

*“Once Buffett played chess with the Brandt’s five-year-old son, Jonathan. ‘Buffett has always said he lost to Jonathan,’ Mrs. Brandt said. ‘The truth is he beat Jonathan, but barely. He was sweating it.’*

*Jonathan, who went to Harvard and Stanford, wound up working for Buffett’s long time friend, Bill Ruane at the Ruane, Cunniff firm.”<sup>68</sup>*

*“Dorothy Davis, a wealthy neighbour, invited Buffett over to her apartment one evening in 1957, according to ‘Forbes’ (October 12, 1998). ‘I’ve heard you manage money,’ she said. Buffett recalls, ‘She questioned me very closely for two hours about my philosophy of investing. But her husband, Dr. Davis, didn’t say a word. He appeared not even to be*

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<sup>64</sup> Kilpatrick, 2001, p.73

<sup>65</sup> Kilpatrick, 2001, p.73

<sup>66</sup> Kilpatrick, 2001, p.75

<sup>67</sup> Kilpatrick, 2001, p.83

<sup>68</sup> Kilpatrick, 2001, p.83

listening. Suddenly, Dr. Davis announced 'We're giving you \$100,000.' 'How come?' I asked. 'Because you remind me of Charlie Munger.' 'Who's Charles Munger?' Buffett didn't even know Munger yet. Two years later Dr. Davis introduced the two. ...

Among the early partners was Charles Heider who today is general partner of Heider-Weitz Partners in Omaha. Heider says: 'I told my family. 'Look Warren is going to think about how to invest our money seven days a week.''

Another was investor Fred Stanback who met and was impressed with Buffett at Columbia. Stanback is known for his long term holdings in Berkshire, Food Lion and other stocks."<sup>69</sup>

"Buffett moved the partnership in 1962 to 810 Kiewit Plaza and by then had splurged by hiring his first employee, Bill Scott, who managed Berkshire's bond portfolio until his retirement in 1993. Scott still works part-time at Berkshire and oversees his own charity interests."<sup>70</sup>

"Robert Soener - A retired stockbroker, Soener still watches the market on CNBC in the afternoons, checking Berkshire's stock price and chatting with his broker on the phone from his upstairs den.

He and a son live in the two-story brick house near 38<sup>th</sup> and Culling Streets that Soener bought in 1961. It was there that he and his wife, Mary, raised seven children. She died in 1980."<sup>71</sup>

"Charles E. Peterson Jr. - Holds the distinction of being one of the original investors in Buffett's first partnership in Omaha in 1956. ...

The document on the wall shows he put \$5,000 into Buffett Associates, the minimum Buffett would accept. 'That was a lot of money to me', says Peterson, who had been Buffett's roommate at the University of Pennsylvania in 1950. ...

They have remained friends. Peterson, a robust man of 71, says he bought Berkshire stock again and again over the years."<sup>72</sup>

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<sup>69</sup> Kilpatrick, 2001, p.89

<sup>70</sup> Kilpatrick, 2001, p.91

<sup>71</sup> Kilpatrick, 2001, p.113

<sup>72</sup> Kilpatrick, 2001, p.115

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*“Leland Olson, an obstetrician, took Buffett’s investment course at Omaha University in the mid-1950s. Olson was so impressed he took the course twice, the second time bringing his wife, Dorothy.*

*‘The basic theory was that you’re not smart enough to do your own investing unless you spend seven days a week studying it,’ Olson says. ‘So you’ve got to get somebody else to help.’ For the Olsons, that somebody became Buffett. They invested in a partnership that Buffett had established with a dozen other physicians.”<sup>73</sup>*

*“Tom Knapp, one of the investors who studied under Ben Graham and who was part of the Tweedy, Browne & Knapp brokerage firm, recalls how he and Buffett once tried to corner the market in 1954 Blue Eagle four-cent airmail stamps, thinking it might become a collectible.*

...

*As the years went by Knapp and Buffett found no great demand for their stamps. ‘Warren was looking at the time value of money and saw things were evening out. He found the one buyer in the world. The fellow bought at 10% from face value. I kept a few sheets of them for old times sake.’”<sup>74</sup>*

*“Noted value investor Walter Schloss of New York, who became friends with Buffett during Buffett’s Columbia days and worked with him under Ben Graham, recalls: ‘I got out of the Army Signal Corps at the end of 1945 ... In 1960 I was feeling sentimental about my buddies and I decided to write all of them. It was about 140 people. Knapp saw that I had all these letters and he said he had stamps for them,’ recalled Schloss. ...*

*Schloss said he knew back then that Buffett was an unusual person.”<sup>75</sup>*

*“In 1991 Buffett and his friend, Cap Cities Chairman Thomas Murphy, made a four-minute appearance on ABC’s soap opera All My Children. Playing themselves, they were beseeched by femme fatale Erica Kane (Martin Brent Cudahy Chandler Montgomery Montgomery because she supposedly married Montgomery twice, etc., etc.) played by Susan Lucci, the actress many thought should have won an Emmy long before she did in 1999. Lucci asked the financiers for advice about her cosmetics company. Buffett’s recommendation: ‘Go public.’”<sup>76</sup>*

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<sup>73</sup> Kilpatrick, 2001, p.116 ff.

<sup>74</sup> Kilpatrick, 2001, p.119 ff.

<sup>75</sup> Kilpatrick, 2001, p.120 ff.

<sup>76</sup> Kilpatrick, 2001, p.123

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“... his assistant, Debbie Bosanek.”<sup>77</sup>

“For all his folksy ways, it’s the high and mighty who seek his advice. Back in 1984 when the Getty family was embroiled in complex merger talks, Ann Getty flew to Omaha to seek Buffett’s counsel.”<sup>78</sup>

“He has had dinner with Ronald and Nancy Reagan and been seated next to both Barbara Bush and Jane Muskie at a dinner party. He has been to small, private dinners with President Bill Clinton at the White House.”<sup>79</sup>

“A photo of Buffett pops up in the book ‘Lilly’ which is about playwright Lillian Hellman of Martha’s Vineyard. There’s Buffett, in sneakers, slacks, golf shirt and white hat, standing on a dock, with Lillian Hellman, Barbara Hersey (wife of writer John Hersey), and author William Styron.”<sup>80</sup>

“ComCast Cable’s Brian Roberts says he had a letter from Buffett following a golf outing at Sun Valley after Roberts and Buffett beat Gates at golf and Buffett won \$7. Buffett wrote that he wanted to make Roberts a permanent golf partner because it was the first time he had won money from Gates.”<sup>81</sup>

“In his book *Work in Progress*, Disney’s Michael Eisner describes one scene (p. 12) from the 1994 Herb Allen conference in Sun Valley, Idaho:

‘I spent most of dinner talking with Warren Buffett, while Jane spoke to his wife Susie. ... At one point, David Geffen, who had made a lot of money selling his record company to MCA, walked into the room and spotted walked over and immediately dropped to his knees, genuflecting. ‘Oh my lord,’ He said. ‘I’m at the feet of the king.’ Warren seemed amused, but said nothing. ...’<sup>82</sup>

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<sup>77</sup> Kilpatrick, 2001, p.124

<sup>78</sup> Kilpatrick, 2001, p.130

<sup>79</sup> Kilpatrick, 2001, p.130

<sup>80</sup> Kilpatrick, 2001, p.131

<sup>81</sup> Kilpatrick, 2001, p.131

<sup>82</sup> Kilpatrick, 2001, p.131 ff.

“‘He’s like talking to a neighbour,’ says Ronald K. Richey, chairman of Torchmark, an insurance and financial services company in Birmingham, Alabama, in which Berkshire has a small investment - about \$10 million. By Berkshire’s standards, that’s small.”<sup>83</sup>

“... ‘It’s in between,’ says Dr. Ronald W. Roskens, former president of the University of Nebraska, who has occasionally called on Buffett at his office about civic or charitable missions.”<sup>84</sup>

“Bob Hancock, head of Robert Hancock Investments in Omaha, once asked Buffett how he’d play Augusta and Buffett said, ‘I’d tee it up and hit it directly into the water.”<sup>85</sup>

“Buffett, who invested little in his game for a celebrity tennis match in Omaha in 1992, plays here with tennis champions Pam Shriver and Martina Navratilova and former NFL quarterback Danny White. Buffett said his preparation for the match was to learn to say, ‘yours’ in Czech to Navratilova. Even that didn’t work because Miss Shriver and White won the match on a one-point tie-breaker.”<sup>86</sup>

The following is a list of golfers and tennis players at Buffett’s charity sports day:

“Golfers of Buffett’s Omaha Classic:

Roger Ackerman, chairman and CEO, Corning Inc; Beau Armstrong, president of Stratus Properties; Joe Armstrong, partner, Kutack Rock; former astronaut Neil Armstrong, now CEO of AIL Corp.; Robin Barr, chairman, A.G. Barr; Glen Barton, chairman and CEO, Caterpillar Inc.; Bob Botes, chairman and CEO, Guarantee Life Cos.; Jack Baum, president, Sagebrook Investments; Bob Bell, president, Greater Omaha Chamber of Commerce; Dennis Berman, chairman, Denitech Corp., George Brett, Vice president of baseball operations, Kansas City Royals; Stan Bright, vice chairman, MidAmerican Energy Holdings Co.; Dick Callahan, president and CEO, Callahan Associates International; Michael Capellas, president and CEO, Compaq Corp.; Joe Cappy, CEO, Dollar Thrifty Auto Group; Bob Cochran, chairman and CEO, Financial Security Assurance; Dan Look, senior director, Goldman, Sachs & Co.; Bob Crandall, chairman emeritus, AMR Corp.; Tom Cruikshank chairman emeritus, Haliburton Co.; Dave Daberko chairman and CEO, National City Corp.;

<sup>83</sup> Kilpatrick, 2001, p.138

<sup>84</sup> Kilpatrick, 2001, p.142

<sup>85</sup> Kilpatrick, 2001, p.144

<sup>86</sup> Kilpatrick, 2001, p.145

*Harris Diamond, CEO, BSMG Corp.; Irl Engelhardt, chairman and CEO, Peabody Group; Ike Evans, president, Union Pacific Railroad; Bill Fairfield, president and CEO, Inacom Corp.; Tom Fisher, chairman and CEO, Nicor Inc.; Don Fites, chairman emeritus, Caterpillar Inc.; Joe Ford, chairman and CEO, Alltel Corp.; Fabio Freyre, publisher, Sports Illustrated; Lee Gammill, retired Vice chairman, New York Life Insurance Co.; Joe Gasper, president, Nationwide Life Insurance Co.; David Goode, chairman and CEO, Norfolk Southern Corp.; Vin Gupta, chairman and CEO InfoUSA Inc.; Stedman Graham, president, S.Graham & Associates; Grant Gregory, chairman, Gregory and Hoenemeyer.*

*Tom Hacking, president, Hocking & Co.; Darryl Hansen, chairman and CEO, Guide One Insurance; Phil Heasley, president, U.S. Bancorp; Charlie Heider, general partner Heider Weitz Partners; Tom Hicks, chairman and CEO, Hicks, Muse, Tate & Furst; Tim Hoeksema, president and CEO, Midwest Express Airlines; Dick Holland, retired; Paul Horn, president, RDO Equipment; Rolph Horn, chairman and CEO, First Tennessee National Corp.; Jim Houlihan, assessor, Cook County, Ill.; David Hunerberg, regional managing partner, Deloitte & Touche; Clark Johnson, chairman emeritus, Pier 1 Imports; Joel Johnson, chairman and CEO, Hormel Foods Corp., Clarke Keough, vice president, Allen & Co.; Tom Kincaid, president and CEO, Kincaid Capital Group.*

*John Kizer, president, Central States Indemnity; John Leinweber, chief executive officer, Imagine Technology Group; Jim Leslie, president, Staubach Co.; Mike Lindley, CEO, HotLink Marketing; Ben Love, retired chairman, Texas Commerce Bancshares; Peter Lynch, Vice chairman, Fidelity Management; Marshall, retired president, Associates First Capital; Brad Martin, chairman and CEO, Saks, Inc.; Dennis McClain, president, Temerlin McClain; Jim McFarlane, president and area chairman, Arthur J. Gallagher; Joe Moeller, president, Koch industries; Ellen Moran, executive vice president Bozell Worldwide; George Muller, president, Subaru of America; Lance Munger, office managing partner, Deloitte & Touche; Stan Muisal, former baseball star; Aaron Norris, executive producer, Armadea Film; Judy Owen, president and CEO, Norwest Bank Nebraska; Susan Parks, president and general manager, U.S. West Business & Government Services; Chuck Peebler, chairman emeritus, True North Communications; Jeff Raikes, group vice president, Microsoft Corp.; Dick Reiten, president and CEO Northwest Natural Gas; David Rismiller, president and CEO, America First Financial Institutions Investment Management.*

*Rich Santulli, chairman, Executive Jet Aviation; Jack Schneider, managing director, Allen & Co.; Walter Scott Jr, chairman Level 3 Communications Inc.; Rick Seibert, vice president and general manager, Omaha World-Herald; Bobby Shackouls, chairman and CEO, Burlington*

*Resources Inc.; Harold Simmons, chairman and CEO, Contran Corp.; John Simons, president, ConAgro Beef Cos.; Mickey Skinner, chairman and CEO, New World Pasta; David Sokol, chairman and CEO Mid American Energy Holdings Co.; Warren Staley, president and CEO, Cargill Inc.; Mike Starnes, chairman and CEO, MS Carriers; Ken Stinnson, chairman and CEO, Peter Kiewitt Sons', Inc.; John Sturgeon, president, Mutual of Omaha Cos.; Pat Summerall sports anchor, Fox Sports; Bill Strauss, chairman emeritus, Enron Corp.; Frank Swan, CEO Nationwide Foods/Brookfield Farms; Al Ueltschi, president, FlightSafety International; Jack Valenti, president and CEO, Motion Picture Association of America; Chris Yolk, executive vice president and chief operating officer, Franchise Finance Corporation of America; William Welsh, president and CEO, Election Systems & Software; Gary Wiren, president, Golf Around the World; and Mike Yanney, chairman and CEO, America First Cos.*

*Tennis participants:*

*Graham Arader, owner, Arader Galleries; Zoe Baird, president, Markle Foundation; Mogens Boy, chairman and CEO, Valmont Industries; Dick Berry, president, United Seeds; Eddy Blanton, president, Edison Interests; Jack Blanton, chairman, Houston Endowment, Inc, Mariann Byerwalter, vice president and chief financial officer, Stanford University; Michael Carns, retired general, U.S. Air Force; Hank Chiles, retired admiral U.S. Navy; Myrv Christopherson, president, Dana College; Ed Cox, chairman, Edwil L. Cox; Arthur Diedrick, chairman and CEO, Communications International; Peter Duerr, President and CEO, BFD Capital Beteiligungs; Elias Eliopoulos, executive vice president, First National Bank of Omaha; Al Fasola, CEO, Jumbo Sports; Russell Gloss, president, ICAHN Associates Corp.; John Golden, president; Stephen Gould Co.; Rudiger Gunther, executive vice president, Class KgaA; Jim Hebenstreit, president, Bartlett and Co.; Hugh Hunt, president, HunTel Systems; Francis Jelensberger, Alstom; Kelly Jelensberger; Myron Jandel, Financial editor, CNN; David Kames, president and CEO, Fairmont Group.*

*Jeff Love, partner, Locke, Liddell & Sapp; Louis Marx Jr., chairman and CEO, Hudson River Capital; David McCourt, chairman and CEO, RCN Corp.; Gregor Medinger, president, HVB Capitol Markets, Inc.; Scott Miller, executive vice president, Hyatt Development Corp.; Chuck Norris, chairman and founder, Kick Drugs out of America; Tom O'Neill, chairman, McDermott/O'Neill & Associates; Whitney Quillen, chairman and CEO, Q properties; Bill Quinn, president, AMR Investment Services; Allen Salmasi, chairman and CEO, NextWave Telecom; Charles Stevenson, chairman and CEO, Navigator Group; Sol Trujillo, president*

and CEO, US West Inc.; John Veiner, senior partner, SHH Christy and Veiner; Edward Wanaandi, chairman, Trailmobile; and Richard Ware II, president, Amarillo National Bank.”<sup>87</sup>

“Late in 1984, Gary Morrison, President of the Textile Division [of Berkshire Hathaway], sent a detailed plan to Buffett, asking for a small investment in new machinery. ...”<sup>88</sup>

“Kiewitts Walter Scott, Jr., and former Cap Cities Tom Murphy are close friends of Buffett.”<sup>89</sup>

“Berkshire Vice Chairman Charles Munger, Buffett’s friend Sandy Gottesman, who heads the First Manhattan investment firm in New York and Dr. William Angle of Omaha - until his death - have been Major shareholders. Malcolm Chace, a private investor, and a former chairman of Berkshire, who died in 1996 at age 92 was a large stockholder whose cost basis for some of his Berkshire shares was about 25 cents.”<sup>90</sup>

“Berkshires former Chief Financial Officer Verne McKenzie showed reporters the National Indemnity cafeteria during Berkshires annual meeting weekend in 1999.”<sup>91</sup>

“The reinsurance operations are run from National Indemnity’s offices in Stamford, Connecticut, by Harvard Business School graduate Ajit Jain. Born in India, Jain worked for IBM and the McKinsey & Co. consulting firm before joining Berkshire.

Folks at Berkshire’s annual meeting kidded Jain about all his brains. He replied: ‘There is only one brain at this company.’

‘I talk to Ajit Jain about reinsurance deals every night. I do it as much for enjoyment as anything else. He could do it just as well without me,’ Buffett says.”<sup>92</sup>

“In the early days Buffett himself oversaw the insurance business, but he later turned over operations to Berkshire’s Mike Goldberg, who is one of the few people who work at Berkshire headquarters with Buffett. His office is next to Buffett’s.”<sup>93</sup>

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<sup>87</sup> Kilpatrick, 2001, p.163 ff.

<sup>88</sup> Kilpatrick, 2001, p.198

<sup>89</sup> Kilpatrick, 2001, p.204

<sup>90</sup> Kilpatrick, 2001, p.205

<sup>91</sup> Kilpatrick, 2001, p.231

<sup>92</sup> Kilpatrick, 2001 p.238

<sup>93</sup> Kilpatrick, 2001 p.240

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*“Bill Lyons, National Indemnity’s retired general counsel, recalls Buffett’s wit: ‘He once asked me to check out a no-fault insurance business in Florida and I reported back that the business was in awful shape and that it would be stupid to invest in it. He said, ‘Don’t spare me just because it was my idea.’”<sup>94</sup>*

*“Washington Posts Donald Graham ... Katharine Graham and Ben Bradlee are FOBs - Friends of Buffett. Donald Graham once said of Buffett, ‘In finance, he’s the smartest guy. I know who is second.’”<sup>95</sup>*

*“Once Woodward asked Buffett a good way to make more money and Buffett suggested investing. Woodward told Buffett, ‘I don’t know anything about investing.’ ‘Yes, you do.’ Buffett said, ‘All it is, is investigative reporting.’”<sup>96</sup>*

*“Her first major change at the Post was to name self-confident Benjamin Bradlee as managing editor, moving long-time friend and managing editor Al Friendly upstairs to the London bureau. Bradlee, who later occasionally played tennis with Buffett, energised a highly talented and competitive newsroom.”<sup>97</sup>*

*“In 1971 Jerome Newman, following Ben Graham into retirement, nominated Buffett to take his place on the board, but because Buffett had sizeable insurance investments, the SEC had reservations and the idea was dropped.”<sup>98</sup>*

*“But Buffett believed that the company’s competitive advantages were intact. Further, he had great confidence in a newly named chief executive, John J. Byrne [of GEICO] (who retired as CEO of Fund American Enterprises in 1997).”<sup>99</sup>*

*“GEICO, long headed by Chairman William B. Snyder (who retired in 1993) is now headed by Tony Nicely, co-CEO of insurance operations and Lou Simpson, co-CEO of capital operations.”<sup>100</sup>*

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<sup>94</sup> Kilpatrick, 2001 p.244

<sup>95</sup> Kilpatrick, 2001 p.264

<sup>96</sup> Kilpatrick, 2001 p.270

<sup>97</sup> Kilpatrick, 2001 p.279

<sup>98</sup> Kilpatrick, 2001, p.286

<sup>99</sup> Kilpatrick, 2001, p.287

<sup>100</sup> Kilpatrick, 2001, p.291

*“He [Warren Buffett] went on the board where he serves with former U.S. Senator Sam Nunn, entertainment industry investor Herbert Allen, former Major League Baseball commissioner Peter Ueberroth and others.”*<sup>101</sup>

*“Kent Hanan, a teacher and actor in Omaha, recalls the days of Buffett’s allegiance to Pepsi. His mother Elizabeth was an early secretary to Buffett and she recalls going across Farnam Street each afternoon to get Buffett a Pepsi. ‘It was a great source of amusement to my parents that Warren Buffett bought Coca-Cola which he had totally refused to drink,’ recalls Kent Hanon.”*<sup>102</sup>

*“About a week after the March 1989 announcement, ‘Atlanta Constitution’ business writer Melissa Turner interviewed Buffett at his office in Omaha. ...”*<sup>103</sup>

*“McDonald’s chairman Jack Greenberg says: ‘Whether he is a shareholder or not, Warren has always been one of our best customers. He once told me he eats at McDonald’s four times a week.’”*<sup>104</sup>

*“Buffett is on the masthead, listed as chairman of ‘TheBuffalo News’, and is followed by Stanford Lipsey, publisher and president, and Margaret Sullivan, the editor replacing P. Murray Light who had been with the newspaper 50 years and editor for 30 years before retiring in September 1999. ...*

*Lipsey is a close friend of Buffett. They talk on the phone frequently.”*<sup>105</sup>

*“Berkshire agreed to buy Star Furniture Co. of Houston on June 24,1997. ...*

*Under the agreement with Star, Chairman Melvyn Wolff, said he and his family, including his sister and co-owner Shirley Toomin, received Berkshire stock in payment for their business which has 550 employees.*

*‘We’ve made most of our deals in one meeting. This one took two hours and 20 minutes in a hotel room in New York. That’s part for the course,’ Buffett has said.”*<sup>106</sup>

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<sup>101</sup> Kilpatrick, 2001, p.309

<sup>102</sup> Kilpatrick, 2001, p.310

<sup>103</sup> Kilpatrick, 2001, p.320

<sup>104</sup> Kilpatrick, 2001, p.360

<sup>105</sup> Kilpatrick, 2001, p.409 ff.

<sup>106</sup> Kilpatrick, 2001, p.483

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*“On the morning of October 21, 1997 Buffett, along with the likes of Jimmy Carter, attended the funeral in Atlanta of Coca-Cola Chairman Roberto Guizueta. Then he attended a Coke board meeting and that night shared his wisdom with students at Caltech in Pasadena, California. ...”*<sup>107</sup>

*“The same day Lou Simpson, GEICO’s CEO, told Buffett he owned 200,000 shares, and that members of his family and their trusts owned up to 100,000 shares, all acquired in February and March 1999 that he anticipated tendering in the offer.”*<sup>108</sup>

*“Buffett hired two hedge fund managers from Dublin-based EuroPlus Alternative Investments to manage fixed-income investments. They were Daniel Donovan and Richard Grindon.”*<sup>109</sup>

*“On August 14, the firm said that although top Salomon officials, including Gutfreund, President Thomas Strauss and Vice Chairman John Meriwether, knew in April of an earlier illegal bid, they had not reported it to authorities. Salomon had disclosed nothing until faced with a federal investigation. It was Munger who alerted Buffett that information was being withheld from the board.”*<sup>110</sup>

*“When Buffett stepped down, he named Deryck Maughan to head Salomon Brothers.”*<sup>111</sup>

*“The largest shareholder of Citicorp is Saudi Arabian Prince Alwaleed Bin Talal. Buffett once wrote Prince Alwaleed: ‘In Omaha, I’m known as the ‘Alwaleed of America’ - quite a compliment.”*<sup>112</sup>

*“Buffett once told reporter Sue Baggarly of WOWT – TV in Omaha, (October 14, 1993) that he buys 100 shares of many companies. He does it for the purpose of getting the annual reports on time, ‘not lost at some brokerage house.’”*<sup>113</sup>

*“Steve Forbes, who inherited the ‘Forbes’ magazine publishing empire, after his father’s death February 24, 1990, says his father and Buffett were good friends. Indeed, they played*

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<sup>107</sup> Kilpatrick, 2001, p.485

<sup>108</sup> Kilpatrick, 2001, p.513

<sup>109</sup> Kilpatrick, 2001, p.531

<sup>110</sup> Kilpatrick, 2001, p.537

<sup>111</sup> Kilpatrick, 2001, p.548

<sup>112</sup> Kilpatrick, 2001, p.550

<sup>113</sup> Kilpatrick, 2001, p.551

*bridge together the night before globe-trotter (by balloon, motorcycle or yacht) Malcolm Forbes' fatal heart attack.”<sup>114</sup>*

*“Few things give Buffett more pride than knowing the names of the holders he has drawn to his unusual enterprise. The shareholders are a wide-ranging lot, everyone from yuppies all over country, investment bankers and money managers of all stripes, to corporate executives, and sports and media stars, and a number of shareholders who have known Buffett for years. The Berkshire shareholder list also includes some of the outright rich and famous and mainly people of achievement. This is not a bunch of lounge lizards”<sup>115</sup>*

*“Marshall Weinberg, a Columbia classmate of Buffett's who became a stockbroker at Gruntal & Co., sold some stock to make contributions to various causes.”<sup>116</sup>*

*“ABC networks' radioman extraordinaire, Paul Harvey, got to know Buffett because of his work at ABC Radio. 'I met him at Cap Cities' meetings. It was actually my wife (Angel) who invested with him first at about \$6,000 or \$7,000 a share,' Harvey said.”<sup>117</sup>*

*“I met him at a Columbia Business School Forum in 1986 in a hotel in New York. There were a bunch of ... (financial speakers) and I went along because he's my hero,' said Glenn Hank Greenberg, managing director of Chieftain Capital Management in New York, who earned an MBA degree from Columbia in 1973.”<sup>118</sup>*

*“Bill Scargle, a Paine Webber executive in San Francisco, California, ... It started with a \$2,000 investment in Blue Chip in 1969 because it looked like a growth company.' ...*

*As any investor with all his eggs in one basket, I wanted to meet in person the man who held the basket. ...*

*It lasted a few minutes. Buffett said he had about an hour if anyone would like to stick around to talk about investing. That hour changed my life. I knew at once this guy was on very smart investor. Nothing has ever changed my mind since.*

*After the meeting, I introduced myself to Buffett ...*

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<sup>114</sup> Kilpatrick, 2001, p.621

<sup>115</sup> Kilpatrick, 2001, p.635

<sup>116</sup> Kilpatrick, 2001, p.649

<sup>117</sup> Kilpatrick, 2001, p.665

<sup>118</sup> Kilpatrick, 2001, p.671

At Scargle's 60<sup>th</sup> birthday party on August 17, 1998, Scargle received a note from Buffett which said: 'Bill, congratulations on your 60<sup>th</sup>. May you live until Berkshire ('A') splits.'"<sup>119</sup>

"I first learned about Berkshire in 1973 from Adam Smith's 'Supermoney'" says Neil McMahon of New York. 'I owned 100 shares of Berkshire by 1979 at an average cost of \$220. I sold the 100 shares at a profit in the early 1980s and regret it.'

'I bought Berkshire back in 1982. Then in 1986 and 1987 I bought 18 more shares. I own 36 shares now, or almost \$2 million of Berkshire and about 2,000 shares of Sequoia Fund so I have more Berkshire indirectly.'"<sup>120</sup>

"Chris Stavrou of New York - a large Berkshire shareholder since the mid 1980s - has had brief conversations with Buffett over the years ..."<sup>121</sup>

"Two Australian investors - Ian Darling and Mark Nelson - make the journey half way around the world each spring to Omaha to catch up on Buffett's thinking. ...

We first met Buffett while watching the Omaha Royals at the baseball game in 1995. We sat down beside him in the stand, introduced ourselves, and explained that we were from Australia. He shouted with delight, 'Hey, these guys have come all the way from Australia.' He genuinely seemed excited by our visit. We got the distinct impression that we were the first Australians Buffett had ever met, both from his greeting and the warm letter we received from him back in Australia after the event: 'You both are great sports to come all the way from Australia and I hope you continue to make the trip.' With an invitation like that how could we possibly let him down? We have returned every year since.'"<sup>122</sup>

"Before the signing Bush and Buffett had a private chat. The details were not disclosed. We may never get them, but the discussion was about business, not politics. The President of the United States, George Herbert Walker Bush, peppered Buffett with question about the economy.'"<sup>123</sup>

"Buffett told reporter Jonathan Laing for a March 31, 1977, story in the 'Wall Street Journal' that his personal portfolio of stockholdings was worth \$30 million, but much of that \$30

<sup>119</sup> Kilpatrick, 2001, p.673 ff.

<sup>120</sup> Kilpatrick, 2001, p.675

<sup>121</sup> Kilpatrick, 2001, p.687

<sup>122</sup> Kilpatrick, 2001, p.701

<sup>123</sup> Kilpatrick, 2001, p.804

million included *Diversified Retailing and Blue Chip Stamps* which later became part of Berkshire. ...”<sup>124</sup>

“In 1998 Mildred Topp Othmer, a long time Berkshire investor, left a fortune of about \$450 million to charity. For example, more than \$100 million went to the University of Nebraska-Lincoln. ... He was a professor of chemical engineering at Polytechnic University in Brooklyn, ‘a workaholic with scores of patents and a sideline in consulting. She was a former teacher and buyer for her mother’s dress store who volunteered at the Brooklyn Botanical Garden and Planned Parenthood. They had no children, unless you count the students he invited to have dinner.’

‘When they died - he in 1995 and she in April (1998), both in their 90s - they left their money to many of their favourite charities...’

‘Some decades ago they invested most of their savings with an old family friend from Omaha: Warren E. Buffett ...’ ...

‘As Mr.Buffett recalls it, Mrs.Othmer’s mother, Mattie Topp, first approached him about investing for the family around 1958, when he was 27 and managing less than a million. She had used Mr.Buffett’s father as her broker before he became a United States Representative.’”<sup>125</sup>

“Kendrick [all-American defensive for the University of Alabama Football team] finally met Buffett at the Berkshire Annual Meeting in 1996. Kendrick got in touch with Alabama’s former offensive coach, Homer Smith, who wrote Buffett about Kendrick. Buffett wrote back to Smith sending Kendrick a ticket to the annual meeting.”<sup>126</sup>

“He told us a story about Paul Newman, with no suggestion Paul Newman was the movie star doing the buying.

Years back, he said, he once sat table with Paul Newman, and Senator Charles Percy’s wife was between them. She never looked at me the whole time. I could have been an empty seat.’ I asked Buffett if he had a chance to talk to Paul Newman, and he said a little. ‘But I practically had to knock her over to talk to him.’”<sup>127</sup>

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<sup>124</sup> Kilpatrick, 2001, p.907

<sup>125</sup> Kilpatrick, 2001, p.1023 ff.

<sup>126</sup> Kilpatrick, 2001, p.1027 ff.

<sup>127</sup> Kilpatrick, 2001, p.1093

## A.3.2.iii Reliability and trust within his network(s)

*“Snyder, conducting the meeting and spotting Buffett in the back of the room said, ‘Warren Buffett is here .... Together Warren Buffett and I own 48% of the company.’*

*Actually, Snyder owned well over 1% of GEICO’s stock himself. The prospect of being controlled by Berkshire never seemed to bother Snyder, who said, ‘Warren Buffett is such an enlightened owner that we frankly wouldn’t be distressed. We thought about this back when he had 35-37% of the stock and we see no problem. Nothing will change.’ Snyder said Buffett exercised no control over the company at that time.”<sup>128</sup>*

*“Buffett has said Keough’s extraordinary personality is one reason he invested so heavily in Coca-Cola.”<sup>129</sup>*

It seems plausible to suggest that this statement also means that he trust those people he works with, and, hence, is prepared to engage in business activities with them:

*“I love being associated with Murph. I literally do not work with anyone I don’t like. I’m fortunate to be able to spend the rest of my life working with people that I like and admire. And here’s Murph up at the top of that list with a terribly interesting business.”<sup>130</sup>*

And:

*“‘It is unusual for Berkshire Hathaway to invest in a capital-intensive, labour-intensive industry, such as the airline industry. Our enthusiasm for the investment in U.S. Air Group preferred stock is dramatic evidence of our high regard for Ed Colony’s management,’ Buffett said. ‘I like Ed.’”<sup>131</sup>*

And:

*“‘I found in running businesses that the best results come from letting high-grade people work unencumbered.’”<sup>132</sup>*

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<sup>128</sup> Kilpatrick, 2001, p.292

<sup>129</sup> Kilpatrick, 2001, p.306

<sup>130</sup> Kilpatrick, 2001, p.369 ff.

<sup>131</sup> Kilpatrick, 2001, p.563

<sup>132</sup> Kilpatrick, 2001, p.1061

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*“Buffett became a director of Cap Cities. He also agreed to vote with management for 11 years as long as either Tom Murphy or Daniel Burke was in charge.”*<sup>133</sup>

*“... ‘The thing I told our associates, and what’s so beautiful about the deal, is that Mr. Buffett likes his subsidiaries to run as their own business ... He told me, ‘I don’t call my presidents, but I like hearing from you guys once in a while.’”*<sup>134</sup>

*“‘A few days later Melvyn and I met in New York and made a deal in a single, two-hour session. As was the case with the Blumkins and Bill Child, I had no need to check leases, work out employment contracts, etc. I knew I was dealing with a man of integrity and that’s what counted.’”*<sup>135</sup>

*“In Berkshire’s 1995 Annual Report, Buffett indicated that: GEICO’s Louis A. Simpson is the heir apparent at Berkshire.*

*‘His presence on the scene assures us that Berkshire would have an extraordinary professional immediately available to handle its investments if something were to happen to Charlie and me,’ he wrote.”*<sup>136</sup>

*“The foundation is still quite small and waiting for Buffett’s vast wealth to multiply into a force for the betterment of mankind. ‘The foundation will be funded in a big way at my death and I’ve told the trustees that they can do anything they think is the thing to do at the time. I do not restrict them in any way. I will tell them that their decisions above ground will be a lot better than mine 6 feet underground. ... You don’t know what the major problems of the world will be or what the funding sources will be or anything. So they (the foundation’s trustees) have total discretion.’ Buffet said.”*<sup>137</sup>

*“On August 14, the firm said that although top Salomon officials, including Gutfreund, President Thomas Strauss and Vice Chairman John Meriwether, knew in April of an earlier illegal bid, they had not reported it to authorities. Salomon had disclosed nothing until faced*

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<sup>133</sup> Kilpatrick, 2001, p.371

<sup>134</sup> Kilpatrick, 2001, p.468

<sup>135</sup> Kilpatrick, 2001, p.484

<sup>136</sup> Kilpatrick, 2001, p.897

<sup>137</sup> Kilpatrick, 2001, p.1010

*with a federal investigation. It was Munger who alerted Buffett that information was being withheld from the board.”<sup>138</sup>*

### **A.3.3 Networking activities**

A.3.3.i Reference to (the importance of) “the right” contacts and the ability to create them

*“Buffett’s huge network of knowledgeable and influential friends also has been a help along the way. Buffett has been an original thinker, but it cannot have hurt to discuss prospects for a television station with Tom Murphy, chat about a common investment with Laurence Tisch, or talk with Jack Byrne about insurance.*

*‘His network of mends has been very important,’ says broker Hayes.”<sup>139</sup>*

*“Indeed, they played bridge together the night before globe-trotter (by balloon, motorcycle or yacht) Malcolm Forbes’ fatal heart attack.*

*‘They were playing in Britain against British Parliament members,’ recalled the younger Forbes of the Corporate America vs. British Parliament game. The name of the corporate America team was Corporate America’s Six Honchos (CASH).*

*It took place at a 17<sup>th</sup> century riverside mansion, Old Battersea House, the London home of Malcolm Forbes, a Victorian art-filled house said to have been built by Sir Christopher Wren. The Corporate America team was headed by former CBS chairman Laurence Tisch, Buffett, Malcolm Forbes, and Bear Stearns’ Chairman Alan ‘Ace’ Greenberg. (Buffett wrote a short foreword for Greenberg’s book ‘Memo from the chairman’.*

*James Carne, president of Bear Stearns, George Gillespie III, partner of the Cravath, Swaine and Moore law firm and Milton Petrie, chairman of the Petrie Stores, played against the Dukes, Sirs and Lords of England on February 23, 1990. The British team was headed by Sir Peter Emery. ...*

*Buffett arrived in London with his wife. The Buffetts and Gillespies went to dinner and theatre the night before the bridge game.”<sup>140</sup>*

<sup>138</sup> Kilpatrick, 2001, p.537

<sup>139</sup> Kilpatrick, 2001, p.600

<sup>140</sup> Kilpatrick, 2001, p.621

## A.3.3.ii Reference to the establishment, maintenance and use of his network

*“John Steggles, the former president of General Re subsidiary Herbert Clough, recalls how Buffett and Ferguson met in 1985:*

*‘GEICO under (Jack) Byrne’s direction was now thriving and Warren had become the biggest individual stockholder - he was also getting more involved in reinsurance deals- General Re was heavily involved with GEICO and Jack Byrne and I thought it would be beneficial all around if Warren Buffett and the General Re Chairman knew one another - so I arranged a private room dinner at my New York Club - The Metropolitan Club – (1 East 60<sup>th</sup> Street). I invited Frank Munson, Jack Byrne, Warren Buffett and Frank who was then Chairman of General Re who brought Ron Ferguson who I think was then President and Director. The date was early February 1985. Warren arrived considerably late.’*

*It turned out Buffett had been meeting with 20 or so people including Leonard Goldenson, the head of ABC-TV, on negotiations for Cap Cities to buy ABC-TV. The negotiations got sticky but were resolved. So Buffett was late to the General Re dinner.”<sup>141</sup>*

*“This was the second time, not the first, that Buffett rescued Salomon. ...*

*In the midst of this chaos, Buffett convinced U.S. Treasury Secretary Nicholas Brady to reverse a major portion of a potentially crippling, five-hour-old ban on Salomon’s highly profitable government securities trading. ...*

*The next day Buffett went to Washington to meet with regulators and to continue his fast-paced mission to save Salomon.”<sup>142</sup>*

*“Buffett himself didn’t go to Benson because he moved to Washington, but he still attends the 1947 and 1948 high school class reunions because he has friends in those classes.”<sup>143</sup>*

Buffett’s very own way of networking. He prefers social occasions rather than formal lunches:

*“Rogers still has a letter dated March 5, 1987, from Buffett to Columbia University Graduate School of Business Dean John Burton which reads:*

*‘I appreciate the invitation to the Annual Dinner but will have to decline. My extended trip to New York always occurs in May - and even then I like to skip formal dinners as I find I can do a lot more catching up with friends in four- and six-people lunches and dinners. In fact, I’m*

<sup>141</sup> Kilpatrick, 2001, p.25

<sup>142</sup> Kilpatrick, 2001, p.31 ff.

<sup>143</sup> Kilpatrick, 2001, p.53

*not sure I can quite remember the last formal dinner I've attended. I enjoyed the Columbia Business School Report. From everything I hear, Jim Rogers continues to be regarded as the best finance teacher in the country.*”<sup>144</sup>

And:

*“He has had dinner with Ronald and Nancy Reagan and been seated next to both Barbara Bush and Jane Muskie at a dinner party. He has been to small, private dinners with President Bill Clinton at the White House.*

*But he does not try to make every social occasion and in September, 1993, declined an invitation from Mrs. Graham for dinner with President Clinton on Martha's Vineyard. ...*

*However he showed up at Martha's Vineyard August 27, 1994, for a golf game with Clinton.*

*... ”*<sup>145</sup>

*“In early 1998 Buffett was among the rich and powerful to show up at a formal dinner in the East Room of the White House as President Bill Clinton hosted Britain's Prime Minister Tony Blair. Mrs. Buffett sat next to Clinton, with Mrs. Blair on the other side. Among those invited: Steven Spielberg, Barry Diller, Jack Welch, Tom Hanks, Ralph Lauren, John F. Kennedy, Jr., Tina Brown, Anna Wintour, Barbara Walters and Peter Jennings.”*<sup>146</sup>

*“Buffett, Sen. Bob Keffey and InfoUSA founder Vinod Gupta hosted a fund-raiser for Hillary Rodham Clinton in Omaha on March 9, 2000. Buffett took the First Lady to Borsheim's where she shopped for china and silverware for her new house in New York. ... ”*<sup>147</sup>

*“Buffett has popped up at fancy watering holes such as Lyford Cay. He showed up at the 1988 Winter Olympics in Calgary, Alberta, where Agnes Nixon, creator of 'All My Children' talked him into his first soap opera appearance.*

*In New York on March 16, 1993, Buffett showed up at The '21' Club celebrity-studded party for the opening of the TV version of Barbarians at the Gate, the story of the RJR Nabisco takeover.*

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<sup>144</sup> Kilpatrick, 2001, p.66

<sup>145</sup> Kilpatrick, 2001, p.130

<sup>146</sup> Kilpatrick, 2001, p.130

<sup>147</sup> Kilpatrick, 2001, p.130 ff.

*James Garner, who played RJR Chairman Ross Johnson in the movie, was there along with Lauren Bacall, Robert and Georgette Mosbacher and Carl Icahn. Oreo cookies and caviar were served.”<sup>148</sup>*

*“Each summer, Buffett shows up in Sun Valley, Idaho, for a media conference hosted by investment banker Herbert Allen. Over the years the participants have included Gerald Levin, chairman of Time Warner, Sumner Redstone of Via com International, H. Wayne Huizenga of Blockbuster Entertainment, Tom Pollock of Universal Pictures, Jeffrey Katzenberg, the ‘K’ of Dream Works SKG, Robert Wright of NBC, John Malone of Tele-Communications, Inc. (the nation’s largest cable operator), and Barry Diller of QVC as well as Coca-Cola, McDonald’s, Fidelity Investments and J.P. Morgan. Other attendees have included AT &T’s C. Michael Armstrong, Amazon.com’s Jeff Bezos, AGL’s Steve Case, Washington Post’s Donald and Katharine Graham, Playboy’s Christie Hefner, Yahoo’s Jerry Yang, Oprah Winfrey, and Robert Strauss, former Democratic National Chairman. Buffett has had talks with Intel’s Andy Grove.”<sup>149</sup>*

*“Buffett, the Rev. Jesse Jackson (by phone) and Sen. Bob Keffey led a forum on October 9, 1999 at Omaha’s Doubletree Hotel to help high school students attain economic literacy.”<sup>150</sup>*

*“Buffett is a member of the Alfalfa Club ... The group of about 225 heavy hitters assemble once a year to drink Scotch and trade quips. President Bill Clinton asked the group at its 1997 dinner meeting to join him to build a ‘bridge over the 22<sup>nd</sup> Amendment,’ the law that limits presidents to two terms. Buffett, and such luminaries as Colin Powell, Supreme Court Chief Justice William Rehnquist, Disney’s Michael Eisner and Jack Valenti, head of the Motion Picture Association of America, were on hand that night.”<sup>151</sup>*

An example of weak ties:

*“One of the students was Dr. Carol Angle, a young paediatrician. (Forbes, October 12, 1998) ‘Warren had us calculate how money would grow using a slide rule. He brainwashed us to truly believe in our heart of hearts in the miracle of compound interest,’ said Dr. Angle. She and her husband, William, also a doctor, invited 11 other doctors to a dinner to meet Buffett.”<sup>152</sup>*

<sup>148</sup> Kilpatrick, 2001, p.131

<sup>149</sup> Kilpatrick, 2001, p.131

<sup>150</sup> Kilpatrick, 2001, p.132

<sup>151</sup> Kilpatrick, 2001, p.133

<sup>152</sup> Kilpatrick, 2001, p.68

And:

*“In 1968, not many years after the American Express investment, Buffett became a trustee of Grinnell College in Grinnell, Iowa, when the school’s liquid endowments was about \$12 million. ...*

*It was at the urging of his friend Joseph F. Rosenfield of Des Moines, a lawyer, investor and retired chairman of Younkers department stores, that Buffett went on the Grinnell board. ...*

*Grinnell’s trustees have done very well with another Buffett connection, Bill Ruane’s Sequoia Fund. ”<sup>153</sup>*

And:

*“Charles Heider, general partner of Heider-Weitz Partners in Omaha, says that Ringwalt called him about the possibility of selling National Indemnity for \$10 million. Heider called his friend Buffett who told him he was interested. When I Heider asked when would be a good time to get together to talk about it, Buffett replied, ‘What about this afternoon?’ ‘Warren liked everything about National Indemnity and had followed it with interest for some years. Warren recognized Jack Ringwalt as a very intelligent person and his respect was confirmed when he learned that Jack made sure all the lights were out before leaving for the day. ...*

*Ringwalt’s memoirs said Buffett was about 20 years old when the two first met. Buffett was trying to raise \$100,000 to start an investment pool. Ringwalt said he offered to invest \$10,000. Buffett, however, said he would accept nothing less than \$50,000. ... ”<sup>154</sup>*

And:

*“‘Between 1951 and 1954, when I was pestering Ben Graham for a job (he turned me down when I got out of school, even though I offered to work for him for nothing), he mentioned me to Bill Rosenwald (son of Julius Rosenwald who developed Sears, Roebuck into a mass merchandiser) with the result that I received an exploratory letter about going to work for the family. I couldn’t follow through at the time because National Guard obligations kept me in Omaha. I will never know if Ben was trying to do Bill Rosenwald a favour, or whether he was just trying to get me off his own doorstep. ”<sup>155</sup>*

And:

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<sup>153</sup> Kilpatrick, 2001 p.227

<sup>154</sup> Kilpatrick, 2001 p.233

<sup>155</sup> Kilpatrick, 2001, p.72 ff.

*“Dorothy Davis, a wealthy neighbour, invited Buffett over to her apartment one evening in 1957, according to ‘Forbes’ (October 12, 1998). ‘I’ve heard you manage money,’ she said. Buffett recalls, ‘She questioned me very closely for two hours about my philosophy of investing. But her husband, Dr.Davis, didn’t say a word. He appeared not even to be listening. Suddenly, Dr. Davis announced ‘We’re giving you \$100,000.’ ‘How come?’ I asked. ‘Because you remind me of Charlie Munger.’ ‘Who’s Charles Munger?’ Buffett didn’t even know Munger yet. Two years later Dr. Davis introduced the two. ...*

And:

*“Richard and Marilyn Holland met Buffett in the ‘50s through Monen, a mutual friend.”<sup>156</sup>*

And:

*“Former ‘Washington Post’ editorial page editor Meg Greenfield introduced the fellow billionaires July 5, 1991 at a picnic at Gates’ Parents’ home. The two have attended Nebraska - Washington football games together and they spent a week together in Bermuda with other business leaders in the fall of 1993 in connection with a reunion of ‘The Buffett Group’, a close circle of his friends that meets every two years to discuss world affairs. Buffett, who has visited Microsoft several times, has encouraged Gates to study Ben Graham. On occasions, Buffett and Gates have played bridge together on the internet for an entire day.”<sup>157</sup>*

And:

*“Buffett likes to play bridge with Sharon Osberg of San Francisco, twice a member of the world’s women’s championship team and silver medallist in Greece in October 1996 in world mixed teams.*

*Ms. Osberg, an executive vice president at Wells Fargo Bank for online financial services until she left that job in early 2000, said, ‘I met him about three years ago at a celebrity bridge tournament through Carol Loomis.’ Later Ms. Osberg gently tried to convince Buffett to play computer bridge. Finally Buffett agreed. ...*

*Ms.Osberg, through her friendship with Buffett, has played with Bill Gates, Katharine Graham and U.S. Supreme Court Justice Sandra Day O’Connor (who graduated No.3 in her class at Stanford Law School). ”<sup>158</sup>*

<sup>156</sup> Kilpatrick, 2001, p.116

<sup>157</sup> Kilpatrick, 2001, p.133

<sup>158</sup> Kilpatrick, 2001, p.150

And:

*“Peters gives an account of how Buffett, Jay Rockefeller and Louis Marx became investors in the magazine and said that Buffett asked him (Peters) for an introduction to Katharine Graham:*

*Jay Rockefeller and Louis Marx got us to \$100,000 with additional pledges. Then Jay introduced me to Warren Buffett...*

*In October (1969) he (Buffett) flew into Washington with two friends, Joseph Rosenfield, from Des Moines, and Fred Stanback, a North Carolinian who was heir to a headache remedy fortune. Together, they agreed to put up the remaining \$50,000. We took all that money and blew it.*

*The magazine, praised for its literary efforts, always struggled financially. Jay and Warren Buffett went to New York to ask James Kobak, a prominent magazine consultant, if there was any hope for the ‘Monthly’.... Warren was impressed with Kaplan (Gilbert Kaplan of Institutional Investor) and that he might be willing to put up another \$50,000 if Kaplan took over the direction of the ‘Monthly’s’ business affairs long enough to get us straightened out.*

...

*So I wasn’t angry when, at times during the conversation, he tried to withdraw from further involvement. But if I wasn’t angry, I was desperate, because I knew I had to hold him in if the magazine was to survive. ...*

*Finally, he agreed to stay in. I have never been more keyed up than at that moment ... Warren’s sympathetic side had won out over the hard-boiled investor. ...*

*Peters said his investors rarely called for favours, and when they did, they were innocent. ‘Warren, for example, asked me to introduce him to Kay Graham, which I did, and it turned out to be a very good thing for both of them. He became her principal financial advisor and the leading minority holder of ‘Washington Post Co.’ stock. They have made each other a lot richer than either was before they met. I should have asked for 10%.’”<sup>159</sup>*

And:

*“Buffett met Murphy in the late 1960s when a former Harvard Business School classmate of Murphy’s seated them together at a lunch in New York. Murphy was so taken with Buffett that he invited him to be on the board of Cap Cities. Buffett declined but the two remained fast friends.”<sup>160</sup>*

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<sup>159</sup> Kilpatrick, 2001 p.261 ff.

<sup>160</sup> Kilpatrick, 2001, p.370

And:

*“Extending his reach in the shoe industry, Buffett bought Dexter Shoe Company in late 1993. Buffett, who rarely gives away stock, did so in this case to the tune of \$420 million. ...*

*Early in 1993, at the suggestion of Frank Rooney, head of Berkshire’s H.H. Brown Shoe Co., Buffett met with Alfond and Lunder at an airport in West Palm Beach, Florida. ‘We went to some little restaurant based on a World War II theme, had a hamburger, and talked about shoes,’ Buffett said. ...*

*Buffett made a cash offer on the spot, but Alfond, not wanting to give a third to the government in capital gains, wanted Berkshire stock. Buffett told Alfond he’d think about it. Several months later Buffett, with Berkshire stock trading near in all-time high, met Alfond and Lunder in Lunder’s apartment in Boston. There with no lawyers, accountants or investment bankers, the deal was struck.”<sup>161</sup>*

And:

*“Berkshire, widening its reach in the home furnishings business, announced May 24, 1995, it would buy R.C. Willey Home Furnishings of Salt Lake City, Utah. ...*

*‘Bill Child was talking to a friend (about possibly selling) and the friend (Nebraska Furniture Mart’s Irv Blumkin) knew Buffett. Two days later Buffett called and the deal was wrapped up in two months,’ said Roger Pusey, business writer for the Deseret News in Salt Lake City.*

*Bill Child, Utah’s Master Entrepreneur of the Year, and Blumkin had talked while at a fabric industry conference in California. Child said Buffett called and told him, ‘You’ve got a jewel of a company. We’d be very interested. I’ll have you a price within three days.’”<sup>162</sup>*

And:

*“On November 23, 1999, Mr. Arnold [President of CORT] received a call from Bruce Cart, an acquaintance of Mr.Arnold. Mr.Arnold returned the call later that day. In their discussions Mr.Cort informed Mr.Arnold that earlier that day he had forwarded a recent Washington Post article about the Company to Warren E. Buffett, Chairman of Berkshire Hathaway, and that Buffett had responded that Berkshire would be interested in a friendly transaction for the Company at \$28.00 per share. Mr.Arnold requested that Mr.Cort arrange a meeting with Mr.Buffett,’ Wesco’s filing said.”<sup>163</sup>*

And:

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<sup>161</sup> Kilpatrick, 2001, p.463

<sup>162</sup> Kilpatrick, 2001, p.471

<sup>163</sup> Kilpatrick, 2001, p.512 ff.

*“In subsequent days of the Salomon scandal, Buffett fired Salomon’s top lawyer, Donald Feuerstein, and replaced him with Robert Denham, a 1971 Harvard Law School graduate who was the managing partner of the Los Angeles-based Munger, Tolles & Olson law firm founded by Charles Munger, Berkshire’s vice chairman.*

*Buffett said at the Berkshire Annual Meeting in 1994 that he quickly called Robert Denham, living a peaceful life in California. ‘I told him I was in a mess.’ And he called Salomon’s treasurer, John MacFarlane, who was competing in a triathlon. ‘Not a practice Charlie and I follow,’ Buffett quipped. MacFarlane now works for Tutor Investments Corp.*

*Buffett described Denham, who was the top student in his freshman law class, as his first and only choice. For 17 years Denham had worked with Buffett on such Berkshire acquisitions as Scott Fetzer and such investments as American Express, Champion and Salomon itself.”<sup>164</sup>*

And:

*“At home in his favourite reading chair one night, Buffett was looking through the 1988 Gillette Annual Report, when it occurred to him Gillette could use more capital. ‘It was my thought that they might be interested in a big investment in their shares because they had used up all their capital in repurchasing shares,’ Buffett has said. ...*

*He checked the list of directors, called one (Joe Sisco, who served with Buffett on GEICO’s board), and asked if he might talk with management about an investment.*

*Buffett created the investment by proposing to Sisco, ‘an equity issue that might make sense.’*

...

*Sisco immediately got in touch with then Gillette Chairman Colman Mockler and a few days later Mockler, returning from a business trip to Mexico, landed in Omaha. Buffett picked him up and drove him to the Omaha Press Club for a lunch of hamburgers, Cokes and an ice cream dessert. ‘We hit it off, a couple of Midwestern boys. I liked him, the chemistry was good.’ ...*

*Ricardo-Campbell said Gillette’s board was happy to accept Buffett’s investment, but the terms remained to be negotiated. Buffett and Mockler began talks, found they liked one another, but Mockler didn’t like Buffett’s initial proposal. Final negotiations between Berkshire’s Vice Chairman Charles Munger and lawyers for Gillette’s board took place and then an agreement was reached between Buffett and Mockler.”<sup>165</sup>*

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<sup>164</sup> Kilpatrick, 2001, p.542 ff.

<sup>165</sup> Kilpatrick, 2001, p.551 ff.

And:

*“Phil Carret, who turned 100 years old on November 29, 1996, was the grandfather of value investing. He lived through more than 30 bull markets, more than 30 bear markets, 20 recessions and the Depression. Carret, born in Lynn, Massachusetts, died May 28, 1998, at the age of 101. ...*

*Carret once found that he and Buffett both owned stock in the retailer Varnado and called Buffett to tell him he knew Varnado’s chairman and to ask Buffett if he would like to meet him the next in New York. Buffett said he’d like that.*

*The three men had lunch and afterwards Buffett told Carret he wasn’t all that taken with the chairman’s discussion of the business scene, ‘I guess I didn’t understand retailing as well as I thought,’ Buffett told Carret. ‘He sold the stock,’ Carret laughed.*

*Carret who put in a 40-hour week until near the end of his life, but drew no salary, said in an interview several years ago that Buffett was one of the two great investors he’d seen. The other was Fred Abbe, three years ahead of Carret at Harvard where Carret graduated in 1917. ‘There are no reunions for me,’ Carret cracked shortly before attending the Berkshire Annual Meeting in 1997. ...*

*Carret, of course, was a great investor himself. He owned Grief Brothers, which makes fibreboard containers, for more than 50 years. It was a steady winner. It so happens Carret bought the stock in 1946 on the recommendation of Buffett’s father.”<sup>166</sup>*

And:

*“Another Berkshire shareholder, Rabbi Myer Kripke of Omaha, became one of the richest men of the cloth in history. He and his wife, Dorothy - who met at the Jewish Theological Seminary in New York City - moved to Omaha in 1946 to take over the pulpit of Beth El Synagogue. A chance meeting in the 1950s led to a friendship with Buffett. It turns out Susie Buffett liked the books that Mrs. Kripke wrote. The two couples often played bridge and celebrated Thanksgiving together. Mrs. Kripke encouraged her husband to invest with Buffett but Kripke resisted, telling his wife, ‘Look, I’ll be silly to go up there. He doesn’t want the kind of money we have.’ In 1966, however, Kripke showed up at Buffett’s office. He said, ‘I’ll take whatever you have, and I’ll make money on you!’ Kripke said. ‘And he did. And we did.’ The Kripkes invested in the partnership and then kept stock in Berkshire. In 1997 the Kripkes wrote a check for \$7 million to the NYC Jewish Seminary. ...”<sup>167</sup>*

<sup>166</sup> Kilpatrick, 2001, p.623 ff.

<sup>167</sup> Kilpatrick, 2001, p.640

And:

*“Ethal Bjornsen and her husband, Olaf, of Colome, South Dakota, invested \$10,000 with Buffett in 1962. They acted on a tip from a daughter, who worked as a secretary to one of Buffett’s friends.”*<sup>168</sup>

And:

*“John Dobson, an Ann Arbor, Michigan lawyer, heard about Buffett’s investing skill from a client. He and three siblings invested in Buffett’s partnership.”*<sup>169</sup>

And:

*“William A. Milanese, Jr.’s father, of Long Island, New York, invested with Buffett after hearing about him through a business partner.”*<sup>170</sup>

And:

*“He [Charles Munger] and his wife, Nancy, each have two children from prior marriages, and four together. The Mungers have a wide net of friends in the highest places in the country.”*<sup>171</sup>

And:

*“Gifford Combs, of Pacific Palisades, California, is the general partner of Chemin de Fer, Limited, an investment partnership. ... the partnership name stems from its origins which were to buy distressed debt of bankrupt railroads. ‘The first guy I bought bonds from was an old German man who had fled Nazi Germany in the 30s, and was very experienced in evaluating senior securities. He was Max Heine’s partner. Heine founded Mutual Shares and later sold the business to his young protégé, Michael Price. My friend, who was Max’s partner, was also a friend to a guy in Omaha named Warren Buffett,’ Combs said.”*<sup>172</sup>

And:

*“Once Buffett played chess with the Brandt’s five-year-old son, Jonathan. ‘Buffett has always said he lost to Jonathan,’ Mrs. Brandt said. ‘The truth is he beat Jonathan, but barely. He was sweating it.’*

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<sup>168</sup> Kilpatrick, 2001, p.649

<sup>169</sup> Kilpatrick, 2001, p.650

<sup>170</sup> Kilpatrick, 2001, p.650 ff.

<sup>171</sup> Kilpatrick, 2001, p.895

<sup>172</sup> Kilpatrick, 2001, p.1137

*Jonathan, who went to Harvard and Stanford, wound up working for Buffett's long time friend, Bill Ruane at the Ruane, Cunniff firm.*"<sup>173</sup>

And:

*"Berkshire launched into an entirely new business on October 125, 1999, saying it planned to buy MidAmerican Energy Holdings Co., a utility company based in Des Moines, Iowa. ... Joining Berkshire in the buyout were Walter Scott, former chairman of Peter Kiewit Sons' and David Sokol, chairman of MidAmerican. Both were big shareholders of the power generating company. Scott, who is on Berkshire's board, brought the deal to Buffett."*<sup>174</sup>

*"Executive Jet Chairman Richard Santulli had been looking for a way to cash out while being pressed to go public. He asked Buffett's advice, who replied: 'Well, what if I buy the company?' ...*

*Buffett first heard of Executive Jet from Frank Rooney, the manager of H.H. Brown. 'Frank had used and been delighted with the service and suggested I meet Rich to investigate signing up for my family's use. It took Rich about 15 minutes to sell me a quarter (200 hours annually) of a Hawker 1000. Since then, my family has learned first hand - 900 hours on 300 trips - what a friendly, efficient and safe operation EJA runs,' Buffett wrote in Berkshire's 1998 annual report."*<sup>175</sup>

*"Peters said his investors rarely called for favours, and when they did, they were innocent. 'Warren, for example, asked me to introduce him to Kay Graham, which I did, and it turned out to be a very good thing for both of them."*<sup>176</sup>

*"Buffett had a specific reason for wanting to meet her; she owned stock in 'The New Yorker' which he believed might be for sale, and he wanted to interest Kay in attempting a takeover, arguing that the 'Post' would be the perfect owner for the magazine. Kay dismissed his suggestion."*<sup>177</sup>

*"Warren and I were driving down to Glen Welby for the weekend (one day in 1979) when, as tactfully and gently as he could, he broke the news to me that Bill Ruane and Sandy Gottesman, close friends of his and investors who had bought a lot of 'Post' stock for*

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<sup>173</sup> Kilpatrick, 2001, p.83

<sup>174</sup> Kilpatrick, 2001, p.503 ff.

<sup>175</sup> Kilpatrick, 2001, p.491 ff.

<sup>176</sup> Kilpatrick, 2001 p.262

<sup>177</sup> Kilpatrick, 2001 p.266

*themselves and for their clients, were going to sell tens of millions of dollars' worth of it. Ruane managed the Sequoia Fund, and Gottesman was a managing partner at the First Manhattan Company, and these groups were about to sell all or half of their 'Post' stock.*

*Warren had pondered how best to deliver this news, and he tried sugar-coating it in every way he could. I have to admit that my immediate response was to burst into tears. ...*

*Warren did his desperate best to console me, explaining that Bill considered he had done so well on 'Post' stock that it added up to too much of some of his portfolios. He was keeping his own stock. ...*

*Warren, of course, had a totally different perspective from mine on what Bill and Sandy were doing. He viewed it as an enormous plus in the lifetime of the company, almost like the 'Times-Herald' merger. Though he knew I'd be profoundly distressed by the idea, he realised right away how much the company would benefit in future profits by their selling their stock. He tried to convince me that we should be holding a party, adding, 'Don't worry. We'll just buy what they sell. It will be good for us and they'll regret it.' Although I didn't stop worrying, we did buy in the stock at an average price of \$21.91, which Sandy and Bill had bought before two splits at an equivalent price of \$6.50.*

*Once, much later, Warren and I discussed women bursting into tears in business situations and I reminded him of our ride to Glen Welby. 'Well,' he said, smiling, 'we made several hundred million dollars then. The next time you burst into tears call me first.' He added, 'Look at it this way, Kay. If you hadn't bought it in, I would have burst into tears, so one of us had to cry.'"<sup>178</sup>*

*"And he occasionally plays bridge with his Omaha friends. One is Richard Holland, a retired advertising executive ..."<sup>179</sup>*

*"Gillespie, a close friend, is a partner in the Cravath, Swaine & Moore law firm in New York which has such clients as IBM, Time Warner and Salomon. Also the firm helps with Buffett's estate planning and has advised The Buffett Foundation. Gillespie a large Washington Post Co. shareholder and a supporter of the fight against Muscular Dystrophy."<sup>180</sup>*

*"One day in the summer of 1956 Homer Dodge, a physics professor and president of Norwich University in Vermont who heard of the wunderkind as a result of being a friend of Ben*

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<sup>178</sup> Kilpatrick, 2001 p.267 ff.

<sup>179</sup> Kilpatrick, 2001, p.152

<sup>180</sup> Kilpatrick, 2001, p.153

*Graham's, arrived in Omaha after a canoe trip, sought out Buffett and became the first outside partner.*

*The canoe trip was apparently incidental. Dodge had driven 1,500 miles alone in hopes of persuading 25-year-old Buffett to manage his family's savings.”<sup>181</sup>*

*“Things didn't go particularly well and that's when Buffett called in Harry Bottle, who later became an investor in Berkshire, to run things. Bottle still pops up at times to get some operating doldrums moving for Buffett. Two years later, the business, later named First Beatrice Corp., was sold. Because it was the largest employer in Beatrice, Nebraska, the city helped finance the acquisition of Buffett's stake.”<sup>182</sup>*

*“Herbert Sklenar, president of Birmingham's Vulcan Materials, the nation's foremost producer of crushed stone, grew up on a farm near Omaha, attended Benson High School and is among those who see Buffett at class reunions. 'He (Buffett) was the second person I ran into at the reunion in 1988,' Sklenar recalls.”<sup>183</sup>*

*“His tiny staff of a dozen people for years included his administrative assistant, Gladys Kaiser, with him from December 1967, when she walked in as a 'temporary' Kelly Girl. She retired in 1993, and Debbie Bosanek was named to her job. Mrs. Kaiser still has lunch with Buffett every month or so.*

*Of her he once said, 'Things just wouldn't quite work around here without her...I wish her immortality. If Gladys can't have it, I'm not sure I want it either.' ...*

*One of the few people working close to Buffett is Michael Goldberg, an intense, hard-driving man who long headed Berkshire's disparate, far-flung nationwide insurance operations, and remains a vice president. 'He's so damn smart and quick that people who are around him all the time feel a constant mental pressure trying to keep up. You'd need a strong ego to survive in headquarters,' Goldberg has told Buffett's friend and chronicler, Carol Loomis of 'Fortune' magazine.”<sup>184</sup>*

Turning to his network for help:

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<sup>181</sup> Kilpatrick, 2001, p.77

<sup>182</sup> Kilpatrick, 2001, p.92

<sup>183</sup> Kilpatrick, 2001, p.139

<sup>184</sup> Kilpatrick, 2001, p.142

*“Once at the height of the Salomon bond trading crisis in the early 1990s, Buffett called his friend James Burke, the former chairman of Johnson & Johnson, Buffett said he was having trouble sleeping and asked Burke for help. When Burke said he ran three to five miles a day during Johnson & Johnson’s Tylenol crisis, Buffett hesitated and then said, ‘Any other suggestions?’”*<sup>185</sup>

And:

*“In the summer of 1993, Kerrey turned to Buffett for advice about President Clinton’s economic plan. Kerrey was the last and deciding vote in the Senate and he finally voted for the president’s package. Buffett’s recommendation to Kerrey was: ‘Hold your nose and vote for it.’”*<sup>186</sup>

And:

*“Buffett’s huge network of knowledgeable and influential friends also has been a help along the way. Buffett has been an original thinker, but it cannot have hurt to discuss prospects for a television station with Tom Murphy, chat about a common investment with Laurence Tisch, or talk with Jack Byrne about insurance.*

*‘His network of mends has been very important,’ says broker Hayes.”*<sup>187</sup>

*“Each year Buffet hosts a daz-long Golf Day for the benefit of Omaha charities, including the Rose Blumkin Performing Arts Centre where his daughter Susan heads the foundation.*

*Those attending the golf and tennis outing at the Omaha Country Club have included top officers of Salomon Brothers, Merrill Lynch, AT&T, Sprint, The New York Times, Bozell Inc., ConAgra, Coopers & Lybrand, Deloitte & Touche, Caterpillar, Schering Plough, U.S. West, Bank One, the Omaha World-Herald and others. ...*

*U.S. Senator Sam Nunn of Georgia and about 100 political and business leaders often attend the event. Participants are invited by the event co-chairmen, Walter Scott, chairman of Peter Kiewit Sons’ and Michael Yanney, chairman of America First Companies.*

*Former Treasury Secretary Nicholas Brady, Jack Byrne of Fund American, Nebraska’s U.S. Senators Bob Kerrey and J. James Exon have found time for the event, which includes dinner with Buffett.”*<sup>188</sup>

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<sup>185</sup> Kilpatrick, 2001, p.146

<sup>186</sup> Kilpatrick, 2001, p.158

<sup>187</sup> Kilpatrick, 2001, p.600

<sup>188</sup> Kilpatrick, 2001, p.157 ff.

*“Among those attending the event in 1996 were former Dallas Cowboys quarterback Roger Staubach, former U.S. Defense Secretary Dick Cheney and former U.S. Senator Lloyd Bentsen. Buffett reminded Bentsen that when he ran for vice president in 1988 - it was in Omaha that he said his famous line to Dan Quayle: ‘Senator, I served with Jack Kennedy. I knew Jack Kennedy. Jack Kennedy was a friend of mine. Senator, you’re no Jack Kennedy.’ Bentsen said he wished he had copyrighted the line.”*<sup>189</sup>

*“Buffett, in 1997, played in a golf tournament hosted by St. Louis Cardinals pitcher Bob Gibson, an asthma sufferer who lives in Omaha. About 40 former athletes - including Sandy Koufax, Vida Blue, Gale Sayers and Stan Musial - played in the tournament. Collectively, the athletes owned nine Hall of Fame plaques, 10 Cy Young Awards, 13 season and World Series most-valuable-player trophies and four rookie-of-the-year honours. ...*

*Bryant Gumbel and comedian Bill Murray were among those who played in the tournament benefiting the American Lung Association.*

*Buffett and Gary Wiren, a golf teacher in North Palm Beach, Florida played 18 holes together at the Elmwood Park public golf course in Omaha on October 12, 1998. ...*

*‘There were no golf carts, no fancy golf bags and no caddies. The two friends slung well-worn canvas golf bags over their shoulders and walked Elmwood, a short-yardage course that ranks high in scenery and low in difficulty,’ wrote Jim Rasmusson of the two men recalling childhood memories of the course.”*<sup>190</sup>

*“Many attendees got their first look at Omaha at the fund-raiser, which Buffett and other local leaders said is good for the city’s image. ‘They get a favourable impression of Omaha,’ Buffett said. ‘It can’t hurt for people to come here and see friendly people and what a great town it is.’ ...*

*But several executives who attended his year’s event said they don’t come to Omaha for the weather. They came to hear Buffett speak at an evening dinner, and to relax for a day.*

*‘Warren’s the catalyst,’ said Dan Cook, a former Nebraskan who works in Dallas as a senior director with investment bank Goldman, Sachs & Co. ‘There are a lot of high-powered egos here, and they learn from Warren. Everyone looks toward to Warren’s speech at night.’”*<sup>191</sup>

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<sup>189</sup> Kilpatrick, 2001, p.158

<sup>190</sup> Kilpatrick, 2001, p.159

<sup>191</sup> Kilpatrick, 2001, p.161

*Cook sponsored a golf foursome that included Harold Simmons executive of Contran Corp., a conglomerate that includes chemical and steel companies.*

*'I've always been an admirer of Warren Buffett,' Simmons said in explaining why he made the trip. 'And this is just a good time. The main thing is to raise money for charity, and you get the opportunity to meet a few people.'*

*'The guest list was sprinkled with celebrities from the worlds of business, sports and entertainment. There was investment guru Peter Lynch of Fidelity Management, remarking to Buffett on Omaha's 'New England weather.' There was baseball Hall of Fame George Brett, hitting drives on the practice range. There was Chuck Norris, star of TV's 'Walker, Texas Ranger,' talking with Jack Valenti, president of the Motion Picture Association of America. Pat Summerall of Fox Sports, who has long been one of pro football's top TV play-by-play announcers, waited to meet Buffett as reporters interviewed the Omaha billionaire on the country club lawn. ...*

*Bill Fairfield, chief executive with Omaha-based computer company Inacom Corp., said Buffett makes the event special for executives and celebrities. ...*

*Bob Bell, president of the Greater Omaha Chamber of Commerce, called the event 'priceless' exposure for the city. ..."<sup>192</sup>*

*"Buffett, along with U.S. Senator Bob Kerrey and some health care CEOs, had dinner at Senator Daniel Moynihan's home in Washington, D.C., on November 24, 1993.*

*One person at the dinner & health reform workshop was Richard Scrushy, chairman of HealthSouth Rehabilitation Corp. in Birmingham which specialises in treating sports and head injuries. ...*

*Another person at the dinner, Barry Morton, CEO of Robins & Morton, a health care construction firm in Birmingham, Alabama, said that Buffett, on meeting a politician at dinner, would pullout his wallet and say, 'Here, take all my money.'*

*In 1997 HealthSouth signed an exclusive five-year partnership with Coca-Cola, Berkshire's biggest investee. The \$5 million deal means HealthSouth serves only Coke products at its facilities in all 50 states. ..."<sup>193</sup>*

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<sup>192</sup> Kilpatrick, 2001, p.161 ff.

<sup>193</sup> Kilpatrick, 2001, p.165 ff.

*“Robert Cope, a bond underwriter from Montgomery, Alabama, called Berkshire in New Bedford, Massachusetts in the early 1970s to try to sell some industrial revenue bonds. He was told to call Buffett in Omaha.*

*‘I called and got Bill Scott who told me he wasn’t buying anything except industrial revenue bonds and I told him that was the only thing I was selling,’ Cope said. ‘He gave me to Buffett and I explained what I had. He understood corporate credits. He didn’t have to go look anything up in ‘Moody’s’ or ‘S&P’. He said he was interested in the tax-exempt bonds I had.’*

...<sup>194</sup>

*“Berkshire’s board includes Buffett; his wife, Mrs. Susan T. Buffett; Munger; Malcom G. (Kim) Chace III, a private investor and chairman of BankRI, a community bank in Rhode Island, who replaced his father on the board in 1992; Howard G. Buffett, Buffett’s son and Walter Scott, Jr., chairman emeritus of Peter Kiewit Sons’ Inc., a privately held construction conglomerate firm in Omaha whose record is so good that Buffett has said he won’t recount it for fear of making Berkshire shareholders restive. ... Scott has been Buffett’s friend since boyhood.”<sup>195</sup>*

*“The float is so thin and shares traded so infrequently that one can stand with Jim McGuire, chairman of Henderson Brothers, at his post on the floor of the New York Stock Exchange where Berkshire and more than 80 other companies trade and find there’s an hour or two between Berkshire trades. Or a day. Henderson Brothers is the oldest continuing specialist firm on the Exchange.*

*Buffett once recalled that on the day Berkshire was listed on the New York Stock Exchange in 1988, he told McGuire: ‘I will consider you an enormous success if the next trade in this stock is about two years from now.’”<sup>196</sup>*

*“One of the early Berkshire reinsurance executives was George Young, who met Buffett in 1962 at a financial seminar. In 1969 Buffett asked Young to come to work for him. The two men started Berkshire’s reinsurance business. ...”<sup>197</sup>*

*“In a letter to the author, Buffalo News Publisher Stan Lipsey wrote:*

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<sup>194</sup> Kilpatrick, 2001, p.201

<sup>195</sup> Kilpatrick, 2001, p.206

<sup>196</sup> Kilpatrick, 2001, p.219

<sup>197</sup> Kilpatrick, 2001 p.244

*'The idea for the Boys Town story came from Warren Buffett. Warren, Paul Williams, editor of The Sun, and I would meet at Warren's house and brainstorm ideas for investigative or enterprise stories for The Sun newspapers. As weeklies, it was hard to report breaking news against a daily and electronic media, so we had to come up with our own enterprise pieces.*

*In one of the sessions, Warren talked about Boys Town, and Paul and I went to work on it. Paul headed the team and organised the investigation. He and I would develop strategy, timing of interviews, and review information we secured. ...*

*Without Warren, there was no story, no Pulitzer. It was his idea, he told us about the Form 990, and then he analysed the vast Boys Town totalled \$219 million'.*"<sup>198</sup>

*"Buffett's first tip about the Boys Town scandal was not to his own paper, but to his friend Charles Peters, publisher of The Washington Monthly in which Buffett had a small investment. 'I passed it (the tip) on (to his newsmen) ... they decided not to pursue the story, largely, on the grounds, I suspect, that an investor's article idea had to be suspect. Warren then gave the story to an Omaha newspaper, which won a Pulitzer for it.'"*<sup>199</sup>

*"In a seminal event, Berkshire now owns all of GEICO with the purchase in early 1996 of the half of GEICO it didn't already own. 'We'll own GEICO forever,' Buffett has said. ...*

*'When I first got interested in GEICO, Graham was chairman of Government Employees Insurance [GEICO] at the time. I took his class here at Columbia,' Buffett said in a talk to Columbia business students, October 27, 1993. ...*

*'I went to the library...and looked it up... and it said it was located in Washington, D.C. So I went down there on a Saturday in January from Columbia. And I got there fairly early, 11 or so o'clock, and the door was locked. And I banged on the door for a while and finally a janitor came. And I said, is there anybody here I could talk to except you? Well, there was a guy up on the fifth floor, and the janitor said if you like, go up and see him.*

*'So I went up and met him. He's 90 or 91 years old now. His name's Lorimer Davidson. (Davidson died in 1999 at the age of 97.) At the time he was the investment officer there. He later became CEO. He spent about five hours with me that day. He explained the whole Insurance business to me, how it worked and how GEICO worked. And I became totally enamoured of it.'"*<sup>200</sup>

<sup>198</sup> Kilpatrick, 2001 p.259 ff.

<sup>199</sup> Kilpatrick, 2001 p.261

<sup>200</sup> Kilpatrick, 2001, p.285

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“‘Charlie and I like, admire, and trust John. We first got to know him in 1976 when he played a key role in GEICO’s escape from near bankruptcy,’ Buffett wrote in Berkshire’s 1987 Annual Report.”<sup>201</sup>

“Here’s how Berkshire bought the rest of GEICO, according to a ‘Washington Post’ story ...  
... For years, Buffett had mentioned to top GEICO officials that his company, Berkshire Hathaway, should consider acquiring 100% of GEICO. But no discussions took place until August 17, 1994. That was the date on which Buffett met in Washington with Louis A. Simpson, co-chief executive of GEICO and the company’s long-time financial whiz, and Samuel C. Butler, chairman of the GEICO board’s executive committee. ...  
On March 1, 1995, Simpson and Butler met in New York with Buffett and his partner, Charles T. Munger. Again they talked about a deal, but each side held firm to its position on price. ...  
Later in the day, Buffett called Butler and said yes, he would agree to do the deal for \$70 in cash.”<sup>202</sup>

“Shortly before Buffett would make stock market history by buying a billion dollars worth of Coca-Cola stock, he took a call from then Coca-Cola President Don Keough.

‘I asked how things were and I said, ‘Warren, are you buying a share or two of Coca-Cola stock?’

‘He said yes and he said it enthusiastically,’ recalled Keough, chairman of Notre Dame’s board of trustees. ...

And what did Mr. Keough do after Mr. Buffett bought Coke stock? ‘I became a modest Berkshire shareholder after his purchase of Coca-Cola stock,’ said Keough, who had had an opportunity more than 30 years earlier to invest in the Buffett Partnership but passed up Buffet’s invitation. ...

A graduate of Creighton University where he was an award-winning debater, moved into the house directly across from Buffett on Farnam Street in Omaha.”<sup>203</sup>

“‘Walt Disney, Capital Cities agree to merger.’- Dow Jones news Wire, 7:56 a.m., July 31, 1995. ...

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<sup>201</sup> Kilpatrick, 2001, p.287

<sup>202</sup> Kilpatrick, 2001, p.295

<sup>203</sup> Kilpatrick, 2001, p.305

*It was a big day for everyone. Disney Chairman Michael Eisner, Cap Cities&ABC Chairman Tom Murphy and Buffett held a press conference to talk about the \$19 billion merger being paid for in Disney stock and cash. ...*

*Eisner, bumping into Buffett who was on his way to a golf game with Murphy, asked Buffett if Cap Cities were for sale. Buffett said, 'I think so, let's ask Murphy.'*

*Here's Eisner's version of the event: ...*

*I was still digesting the conversation (with Larry Tisch about the possibility of buying CBS) when I looked up and saw Warren Buffett coming toward me. He, too, stopped to tell me how impressed he had been by our presentation.*

*'The funniest thing just happened,' I told him. 'I ran into Larry Tisch and we ended up talking about our buying CBS. Unless, of course, you want to sell us Cap Cities for cash.' I was hoping that the possibility of Disney's buying CBS might make Buffett, the largest shareholder in Cap Cities, more eager to sell the company.*

*'Sounds good to me,' he said without hesitation, 'Why don't we go talk to Tom about it?' He was referring to Tom Murphy.*

*'I don't know where he is,' I said.*

*'I'm just going to meet him,' Buffett told me, 'We have a date to play golf with Bill Gates. Why don't you walk over with me?' .....'<sup>204</sup>*

*"Buffett was in Washington one day in 1985 when an urgent call came from his office to get in touch with his friend, Cap Cities Communications Chairman Tom Murphy. Murphy said he needed advice about financing a \$3.5 billion purchase of giant American Broadcasting Companies, Inc. At the time, the Cap Cities acquisition of ABC-TV, announced March 18, 1985, was the largest media purchase in history. ...*

*Neither Murphy nor Buffett at first thought of Buffett being personally involved, but the Wizard of Omaha quickly became a key figure in the acquisition. His role in the huge business combination probably helped Wall Street give its nod to the deal, as the stock prices of both companies shot up. ...*

*The call from Murphy came because he and Buffett had long been friends. Buffett has always had high regard for Murphy, whom he calls 'Murph' and of whom he has said, 'I think he is the top manager in the U.S.' ... Murphy has returned the compliment and has said of Buffett, 'If I were around him all the time, I'd have a huge inferiority complex...He's one of the*

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<sup>204</sup> Kilpatrick, 2001, p.361 ff.

*greatest friends. He will try and do anything he can to help you. Without him, I wouldn't have been able to buy ABC.*"<sup>205</sup>

*"Wesco, of Pasadena, California, is 80.1% owned by Berkshire through Blue Chip Stamps which bought Wesco in 1973. Buffett and Munger convinced Elizabeth Caspers Peters, the daughter of Wesco's founder to cancel a merger so they could buy the company. The Peters family owns about 1.3% of Wesco stock."*<sup>206</sup>

*"Berkshire through Wesco acquired Kansas Bankers Surety Co. of Topeka, Kansas, for \$80 million in 1996. Kansas Bankers, founded in 1909, insures community banks throughout middle America.*

*'He just flat made an offer to us out of the blue,' said Don Towle, CEO of Kansas Bankers, of a letter Buffett wrote to the company in February, 1996. ...*

*Buffett wrote the letter to Roy Dinsdale, a Kansas Bankers director who is also chairman of Pinnacle Bancorp Inc. of Central City, Nebraska. ...*

*Buffett explains in Berkshire's 1996 Annual Report: 'You might be interested in the carefully-crafted and sophisticated strategy that allowed Berkshire to nab the deal. Early in 1996 I was invited to the 40<sup>th</sup> birthday party of my nephew's wife, Jane Rogers. My taste for social events being low, I immediately and in my standard gracious way began to invent reasons for skipping the event. The party planners then countered brilliantly by offering me a seat next to a man I always enjoy, Jane's dad, Roy Dinsdale-so I went.*

*'The party took place on January 26. Though the music was loud - why must bands play as if they will be paid by the decibel? I just managed to hear Roy say he'd come back from a director's meeting of Kansas Bankers Surety, a company I'd always admired. I shouted back that he should let me know if it ever became available for purchase.'*

*Dinsdale sent Buffett the company's financials and Buffett made the offer.*

*Most of the 600 stockholders of Kansas Bankers - most of whom were banks or bankers - sold out to Berkshire."*<sup>207</sup>

*"When Buffett bought See's for chocoholics everywhere - a company that may be a subtle plug for Gillette's Oral-B toothbrushes he put Charles Huggins in charge. Buffett said it took him five minutes to name Huggins and that with the record Huggins has notched, one could*

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<sup>205</sup> Kilpatrick, 2001, p.368 ff.

<sup>206</sup> Kilpatrick, 2001, p.383

<sup>207</sup> Kilpatrick, 2001, p.393 ff.

wonder what took him so long. Buffett said in the 1991 Annual Report that the compensation agreement was ‘conceived in about five minutes and never reduced to a written contract - that remains unchanged to this day.’ Over the years Huggins and Buffett have talked about once every 10 days although Huggins said during the Salomon crisis it was more on the order of once a month.”<sup>208</sup>

“Berkshire bought The Scott & Fetzer Company of Cleveland, Ohio, in early 1986 for \$315 million. Scott Fetzer doubled Berkshire’s sales to about \$2 billion. Scott Fetzer had been on the auction block since 1984, but nothing had clicked. Finally a plan involving heavy Employee Stock Ownership Plan participation was approved by shareholders. But when difficulty arose in closing, the plan was dropped.

Buffett’s ever watchful eye tracked the progress, or lack thereof, in the newspapers. He phoned Chief Executive Ralph Schey and asked for a meeting. Schey is an unusual businessman who has found the time to be actively involved with The Cleveland Clinic, Ohio University, Case Western Reserve and a venture capital firm that has backed a number of Ohio firms.

Buffett and Munger dined with Schey in Chicago on October 22, 1985. The following week, a contract was signed.”<sup>209</sup>

“After Bob Kerrey was governor of Nebraska and before he was elected to the U.S. Senate from the Cornhusker State, he visited Birmingham, Alabama. Following an interview, I asked if he knew Buffett. He related this story:

Kerrey, the Navy SEAL Vietnam-veteran Medal of Honour winner who for a time dated actress Debra Winger, said he once told Buffett he had bought a set of ‘The World Book Encyclopedias’ for his two children.

‘I bought ‘World Book’, too,’ replied Buffett, meaning, of course, he had bought the whole company. Kerrey has said, if ever elected President, he’d turn to Buffett for economic advice. The two men occasionally have dinner at the French Café in Omaha, and Kerrey calls Buffett for advice about economic matters, including tax, healthcare reform, finance and trade policy.”<sup>210</sup>

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<sup>208</sup> Kilpatrick, 2001, p.398 ff.

<sup>209</sup> Kilpatrick, 2001, p.423

<sup>210</sup> Kilpatrick, 2001, p.429

*“In 1997 Buffett named Patrick Byrne president of Fechheimer’s. Byrne, son of Jack Byrne, retired CEO of Fund American Enterprises and once head of GEICO, went to Dartmouth College and Beijing Teachers College. Patrick also earned an M.A. from Cambridge and a Ph.D. in philosophy from Stanford University. He is also is a director of Fund American Enterprises. ...*

*Buffett also said he had hired Byrne’s brother, Mark, to run a new office in London and Bermuda. ...*

*Buffett also said there is a third Byrne brother, John, and indicated he might have to go to work on him.”<sup>211</sup>*

*“The day before the Berkshire Annual Meeting in 1992, the usual party at Borsheim’s was held, but with a twist. Buffett and Patek Philippe President Philippe Stern, held a 1 p.m. Sunday press conference at the store to introduce the watch exhibit. Borsheim’s President Donald Yale said ‘good morning’ and introduced Stern, who in a thick Swiss accent proclaimed the watches his company makes as ‘the finest watches in the world.’ Buffett then addressed the party: ‘Good afternoon - my watch is keeping more accurate time.’*

*After the press conference, Harvey Knowles, a stockbroker with Merrill Lynch in Cincinnati who is co-author of ‘The Dividend Factor’, a book touting the importance of high dividends, asked Buffett to sign his book. ...*

*Also after the press conference, Dr. Michael Prus and his wife, Judith Goodnow Prus, of Grosse Pointe Farms, Michigan, and their daughter, Elizabeth. Elizabeth Prus, then a senior at Princeton University, had received a number of job offers from Wall Street firms, including Salomon and J.P. Morgan; she had accepted the Morgan offer. Buffett said to Elizabeth, ‘Maybe you could send us some of your extra business.’”<sup>212</sup>*

*“Donald Yale, Friedman’s son-in-law who came to Borsheim’s management team after a successful accounting practice, played a role in the business going to Buffett.*

*When Buffett was looking at a ring while Christmas shopping at Borsheim’s in 1988, Yale yelled out, ‘Don’t sell Warren the ring, sell him the store!’*

*After the first of the year, Buffett called and asked if a sale were possible. A short time later Buffett bought the store from Ike Friedman, Borsheim’s president, after a brief meeting at Friedman’s house with Friedman and Yale.”<sup>213</sup>*

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<sup>211</sup> Kilpatrick, 2001, p.445

<sup>212</sup> Kilpatrick, 2001, p.450

<sup>213</sup> Kilpatrick, 2001, p.452

*“Buffett was one of 130 guests who attended Gates’ wedding, New Year’s Day 1994, held at a Jack Nicklaus-designed golf course in Hawaii. Gates was the second richest person at his wedding because Buffett was atop the U.S. rankings then. Other luminaries included Microsoft co-founder Paul Allen-whose 154-foot yacht was the site of a champagne brunch before the wedding – Microsoft’s Steve Ballmer (known as Boom Boom Ballmer for his supercharged voice and personality) and singer Willie Nelson.”*<sup>214</sup>

*“Buffett called H.H. Brown ‘exactly the type of business Berkshire strives to acquire: a leader in its industry and already staffed with tested and trusted management.”*<sup>215</sup>

*“The next business to join Berkshire’s sainted business fold was privately held Helzberg’s Diamond Shops, of North Kansas City, Missouri. The national retail speciality chain, now has more than 20 fine Jewellery stores located in 28 states, mainly in malls. Helzberg’s is the fifth largest jewellery chain in the U.S. ...*

*Buffett said at the annual meeting in 1995 that the acquisition had come about this way: in the spring of 1994 Buffett was in New York walking near 58<sup>th</sup> Street and Fifth Avenue near the Plaza hotel when a woman stopped him to talk about how she enjoyed the annual meeting. Barnett Helzberg who had four shares of Berkshire in his IRA (first one bought in 1985), and who had also been to the annual meeting, overheard her talking to Buffett and came up and said he might have a business to sell him.*

*‘I hear this quite a bit so I asked him to write me,’ Buffett said.*

*Helzberg said, ‘I walked over to Buffett, and we had a very detailed 20-second meeting.’ Later a deal was struck.”*<sup>216</sup>

*“If ever an iconoclastic, irreverent company existed, it’s Jordan’s Furniture Company of Massachusetts. On October 11, 1999 Berkshire announced that it was buying the privately held firm run by two brothers with a flair for the unusual, particularly in advertising. ...*

*It was Buffett who approached the Tatelmans about selling. They had not planned to sell until Buffett came calling and they took him through the Natick store. ‘We never put the company up for sale.”*<sup>217</sup>

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<sup>214</sup> Kilpatrick, 2001, p.457

<sup>215</sup> Kilpatrick, 2001, p.460

<sup>216</sup> Kilpatrick, 2001, p.467

<sup>217</sup> Kilpatrick, 2001, p.499 ff.

*“In April 2000 Buffett personally made the rounds at Congress on deregulation. ...*

*Buffett, an icon of value investing, used his Berkshire Hathaway Inc., holding company to take MidAmerican Energy Holdings Co. private in a deal completed earlier this year.*

*The acquisition is reported to be just the first foray into the electricity sector that Buffett intends to take.*

*But before he can easily accomplish any further acquisitions, he needs Congress to repeal the 1935 Public Utility Holding Company Act, which restricts the geographic and business operations of multi-state utility holding companies.*

*And Buffett knows that politics dictate that any holding company act repeal must be part of a comprehensive bill promoting power market competition.*

*Buffett and MidAmerican have hired former Rep. Robert Livingston, R-La. to lobby Congress on their behalf.*

*On Wednesday, Buffett had personal meetings with (Rep. Thomas) Bliley, the Commerce Committee chairman, and Rep. John Dingell, D-Mich., the committee’s ranking Democrat and former chairman.*

*At the meeting with Bliley, Buffett was accompanied by Kenneth Lay, chairman of Enron Corp., an ardent proponent of congressional action to restructure electricity markets.*

*Buffett further hosted a luncheon for Commerce Committee Democrats and a dinner for Republican members of the panel, and met with Energy Secretary Richardson to discuss restructuring legislation.*

*Industry officials advocating congressional action this year saw Buffett’s visit as significant in that it helped focus lawmakers’ attention to the issue ...”<sup>218</sup>*

*“... ‘When I heard they needed some equity funds, I told Jim (Robinson, then chairman of American Express) that Berkshire would be interested in investing \$500 million. I was willing to buy more, but Jim didn’t want to sell more than \$300 million,’ Buffett told the Journal.”<sup>219</sup>*

*“In a March 1982, letter to John Dingell., chairman of the House subcommittee on Oversight and Investigations that was considering whether to allow the Chicago Mercantile Exchange to trade futures, Buffett wrote:: ...”<sup>220</sup>*

*“Back when Buffett decided to buy shares of The Washington Post Co., he got in touch with Omaha broker Cliff Hayes, now with Wallace Weitz & Co. in Omaha.”<sup>221</sup>*

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<sup>218</sup> Kilpatrick, 2001, p.507

<sup>219</sup> Kilpatrick, 2001, p. 572

<sup>220</sup> Kilpatrick, 2001, p.596

*“Franklin Otis Booth, Jr., cousin of the Los Angeles Chandler family and great grandson of Time Mirror Co. founder Harrison Gray Otis is a shareholder. Booth has 18,000 A shares. ... The amount is a little under that which his friend Charles Munger owns. ...*

*In 1963 Munger told Booth, of Bel Air, California, about Buffett. Booth flew to Omaha to meet the largely unknown Buffett. They stayed up until midnight talking about investments. ... Shortly afterwards, Booth invested \$1 million. That stake has blossomed into a \$1 billion fortune even after Booth sold off a bit for living expenses, other investments and charity. ...*

*U.S. Senator Bob Kerrey, ... Washington Post’s Katharine Graham as well as The Washington Post Company; Coca-Cola’s former president Don Keough; General Re CEO Ron Ferguson; former Cap Cities’ Executives Tom Murphy and Daniel Burke; GEICO’s William Snyder; Tony Nicely and Lou Simpson; former USAir’s chairman Ed Colodny; Sequoia Fund’s Bill Ruane; First Manhattan’s Sandy Gottesman; Wells Fargo’s Paul Hazen; PS Group’s Rick Guerin; Wall Street’s Mario Gabelli and Archie MacAllaster; children’s author Martha Tolles, wife of Roy Tolles of the Munger, Tolles law firm in Los Angeles; Ann Landers, and Investment banker John Loomis and his wife, ‘Fortune’s Carol Loomis.*

*A major shareholder is Stewart Horejsi, of Paradise Valley, Arizona who owns 5,000 A shares. ...*

*Another shareholder is Edwin Pope, the longtime sports editor of ‘The Miami Herald’. Other shareholders are Dr. and Mrs. John Houbolt. He was a NASA engineer who helped do the math that allowed the U.S. to land on the moon in 1969. ...”<sup>222</sup>*

*“Former Dallas Cowboys quarterback Roger Staubach is a Berkshire shareholder who says, ‘I am one of the lucky ones who has been able to participate in Warren Buffett’s golf outings.’ ...*

*Ted Koppel, ABC’s host of ‘Nightline’, is a shareholder.*

*Bill Sr., the father of Microsoft’s Bill Gates, is a shareholder. Microsoft’s Gates himself has about a \$10 million stake in Berkshire. ...*

*Former General Dynamics Chairman William Anders and ‘Outstanding Investor Digest’ publisher Henry Emerson are shareholders.*

*Frank Kurtz, the Olympic diving medallist, aviation pioneer and World War II combat hero, who died at 85 in 1996, was a Berkshire shareholder. ...*

*Sharon Osberg, the bridge champion, is a Berkshire shareholder. ...*

<sup>221</sup> Kilpatrick, 2001, p.596

<sup>222</sup> Kilpatrick, 2001, p.635 ff.

Benjamin Graham's son, Benjamin Graham, Jr., is also a shareholder as is Gifford Combs, a noted money manager in Los Angeles. Tom Russo, a partner in Gardner Investments in Lancaster, Pennsylvania, is another shareholder. Teenager Sarah Park, of Tulsa, Oklahoma, who scored a perfect 1,600 on her SATs, has one share of Berkshire's Class A stock.

Bruce Wilhelm, a silver medallist weightlifter in the 1976 Olympics known for 'Wide World of Sports' appearances, has been a shareholder since 1992. ...

Former Federal Communications Commission Chairman Newton 'television is a vast wasteland' Minow and Voice of America's Geoffrey Cowan, author of 'The People v. Clarence Darrow', are shareholders. Chicago billionaire Lester Crown is another shareholder.

Noted investment expert and writer Charles D. Ellis, managing director of Greenwich Associates, Paul Samuelson, an M.I.T. Nobel Prize winning professor and author are significant shareholders. Richard Russell, author of 'Dow Theory Letters', has been a shareholder since the 1960s. Louis Lowenstein, a professor of law at Columbia University who wrote 'What's wrong With Wall Street' is a shareholder as is his son, Roger Lowenstein, the 'Wall Street Journal' reporter who wrote 'Buffett: The Making of an American Capitalist'. Morgan Stanley's Byron Wien is another shareholder.

Also, Agnes Nixon, creator of 'All My Children', the ABC-TV soap opera where Buffett appeared, is a shareholder. William Off, husband of Kay Orr (former governor of Nebraska) and author of 'First Gentlemans Cookbook' for which Buffett supplied his Dusty Sundae recipe, is a Berkshire shareholder.

And so is Ruth Owades, head of Calyx & Corolla, which sells fresh flowers by catalogue. Her company's biggest investor is Cap Cities, now Disney, making it indirectly a Berkshire business.

Investor Fred Stanback is a longtime Berkshire shareholder as is his nephew George W. Brumley III. Brumley and David Carr are the founders of Oak Value Capital Management Inc. of Durham, North Carolina, which holds Berkshire shares as a core investment.

Rita Ricardo-Campbell, the first woman board member of Gillette and author of 'Resisting Hostile Takeovers: The Case of Gillette', says in her book that she's a Berkshire shareholder. Another Berkshire shareholder is Miami Dolphins' former Head Coach Don Shula. ...

Another shareholder, a book in himself, is Patrick Byrne, son of Jack Byrne, the former head of GEICO.<sup>223</sup>

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<sup>223</sup> Kilpatrick, 2001, p.636 ff.

“Another Berkshire shareholder, Rabbi Myer Kripke of Omaha, became one of the richest men of the cloth in history. He and his wife, Dorothy - who met at the Jewish Theological Seminary in New York City - moved to Omaha in 1946 to take over the pulpit of Beth El Synagogue. A chance meeting in the 1950s led to a friendship with Buffett. It turns out Susie Buffett liked the books that Mrs. Kripke wrote. The two couples often played bridge and celebrated Thanksgiving together. Mrs. Kripke encouraged her husband to invest with Buffett but Kripke resisted, telling his wife, ‘Look, I’ll be silly to go up there. He doesn’t want the kind of money we have.’ In 1966, however, Kripke showed up at Buffett’s office. He said, ‘I’ll take whatever you have, and I’ll make money on you!’ Kripke said. ‘And he did. And we did.’ The Kripkes invested in the partnership and then kept stock in Berkshire. In 1997 the Kripkes wrote a check for \$7 million to the NYC Jewish Seminary. ...”<sup>224</sup>

“Former world bridge champion Bob Hamman is Buffett’s friend and present at Berkshire’s annual meeting festivities, sometimes slipping in a game of bridge with Buffett and his pals. Joe Mansueto, founder of Morningstar, which tracks mutual funds, is an admirer of Buffett and credits following Buffett’s business principles for helping him run his business. ... Soros Fund Management, the investment advisory business founded by billionaire George Soros, in a report for the second quarter of 1999, said it owned some Berkshire shares. ... Forrest Mars, Jr., of the Mars, Inc., candy company ...”<sup>225</sup>

“The largest block of Berkshire stock in Canada is held by AIC Group of Funds which is headed by Michael Lee Chin. His funds own about \$500 million worth of Berkshire stock. Scott Servias, a catcher for the San Francisco Giants is a Berkshire shareholder. Harvey Eisen, chief equity strategist for Travelers Group and a frequent guest panellist on ‘Wall Street Week’ with Louis Rukeyser, is a Berkshire shareholder. ‘Money’ magazine Merrill Lynch Chairman and Treasury Secretary under Donald Reagan quotes Reagan as saying that in their retirement years Ronald and Nancy Reagan received some ‘(investment) advice’ from Warren Buffett.’ Business writer Allan Sloan, a Washington Post employee, who is ‘Newsweek’s’ Wall Street Editor, owns Berkshire in his 401 (k) plan.”<sup>226</sup>

<sup>224</sup> Kilpatrick, 2001, p.640

<sup>225</sup> Kilpatrick, 2001, p.641

<sup>226</sup> Kilpatrick, 2001, p.642 ff.

*“[Ann] Landers - who has answered thousands of letters from such people as Anxious in Akron, Fed Up in Fresno and Lonely in Laredo was invited to a function that involved skits at the Omaha Press Club Gridiron. ‘I was asked to perform and wrote a little skit which had me doing the shimmy in a fringed evening gown. I think Warren was struck by the incongruity of it all - an advice columnist doing the shimmy.*

*‘He came up afterwards and asked if he could take me to lunch the next day. When I told him I already had a luncheon date, he asked, ‘Do you think you can get me included?’”*

*‘I told him I was sure that I could since I was having lunch with people from the ‘Omaha World-Herald’.”*

*The host was Harold Andersen, the publisher, an old friend of Buffett’s. ‘Of course they were thrilled to include Warren Buffett.’*

*‘We went to the lunch and sat next to each other and behaved shamelessly. We hardly spoke to anyone else. Warren is a fascinating man and has a marvellous sense of humour. He said ‘let’s stay in touch. And we have.’”<sup>227</sup>*

*“I started trading for Warren Buffett in about 1963. I got to know him through Rick Guerin, says Arthur Rowsell of Encinitas, California ...*

*I really didn’t know who he was and he was putting in big orders saying he’d pay for them with funds at Illinois National Bank.*

*He called one day and said he was going to Europe but that he wanted to keep buying Blue Chip at under \$16 a share’, Rowsell recalled.*

*At that point my boss asked me who the hell Warren Buffett was and told me to check him out. I called Illinois National to ask if he had an account there and the fellow said, ‘Well, you’re putting me in an embarrassing position. He owns the bank.’ ...*

*Over the years Rowsell worked at Hayden Stone, Doyle O’Connor and Cantor Fitzgerald. Before becoming a private investor, he bought for Buffett such investments as American Express, California Water, Source Capital, Blue Chip, Doyle Dane, Interpublic Group, General Foods, Affiliated Publications and many others. ...*

*‘I’ve talked with Buffett thousands of times over the years. When he was really buying something, we’d talk five to eight times a day,’ Rowsell said.*

*Rowsell was playing tennis with Buffett at the compound near Buffett’s Laguna Beach home one day when he realised Buffett was the greatest investor ever.*

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<sup>227</sup> Kilpatrick, 2001, p.657

*Four of us were sitting around afterwards having a Pepsi and someone mentioned Dunkin' Donuts. I thought I knew Dunkin' Donuts. I mean I worked hard at these things ... He said, 'You know, I've looked at that a few times.' And he started talking about how the company would be more valuable if it split off its real estate into a REIT, that it was only making 80 cents a share. I mean he had all the facts and figures. He knew Dunkin' Donuts up one side and down the other. That was when I sold my Dunkin' Donuts and bought Berkshire at \$300 and \$500 a share.*

*Warren's intellectual capacity and his memory are better than anyone I've ever known. He has the ability to absorb a large number of facts and come out with simple but very effective decisions.*"<sup>228</sup>

*"Arthur Clarke first became interested in Buffett because he wanted money from him, not for himself but for the University of Chicago where he was director of corporate giving in the 1970's. Clarke ... said Buffett once asked him what he liked about fundraising. Clarke replied it was easy enough to figure out who has money; the challenge is to figure out how to approach that person. 'Warren's eyes brightened and he said, 'I can see how that could be fun.' I should add also, however, that he realised one had to be deeply committed to the cause for it to be lasting fun.'*

*One day Clarke was doing his detective work and spotted an item while leafing through the latest issue of 'Official Summary of Security Transactions', the SEC's monthly publication of insider transactions. ... Lights flashed when he saw that Berkshire had made an investment in The Washington Post Co.*

*Ed Anderson, a Chicago alumnus who at the time, was managing partner of Tweedy, Brown & Knapp, had put Clarke onto Buffett's trail. 'Ed recommended I read the chapter on Warren in Adam Smith's book. I did straight away and was hooked. Here was a man who had his life put together in a remarkable way. It may sound strange, but I put Warren, Milton Friedman and Socrates in the same class: each lets reason be his guide. Emotion leads to false expectations, and therefore, disappointment and mean spiritedness.'*

*Buffett became Clarke's role model, which only intensified his drive to find a way to interest Buffett in the University of Chicago. 'The Berkshire purchase of Washington Post stock was the key I was looking for. Most people would have passed right by this item, but I knew that Warren was behind Berkshire and Katharine Graham was behind The Post.'*

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<sup>228</sup> Kilpatrick, 2001, p.679 ff.

*'Katharine Graham is an alumna and was, at the time, a trustee of the University.' This connection gave Clarke the lead he was looking for. 'The next day I called Ed to ask him what was going on between Warren and Kay. 'How did you find out about that?' Was his surprised response.'*

*The story continued from there, but before long Clarke left the university to raise money for the Urban Institute, a think tank in Washington, D.C. 'I had never heard of the place, but Warren (as well as Kay Graham) was a director and that piqued my interest. That's how I finally met him.'*<sup>229</sup>

*"On June 16, 1993, Buffett and eight other CEOs met with President Clinton at a private lunch. Buffett advised Clinton to raise taxes and cut spending as the only practical way to reduce the deficit.*

*Interviewed by reporters on the White House lawn afterwards, Buffett said reducing the deficit was important for the economy and the stock and bond markets.*

*He said he backed Clinton's plan to reduce the deficit and had voted for him.'*<sup>230</sup>

*"By the end of 1990, Berkshire owned about 20% of PS Group - reorganised as PS Group Holdings - a San Diego-based enigma long headed by J. P. 'Rick' Guerin. For more than 25 years, Guerin has been a disciple and friend of both Buffett and Munger.*

*Their friendship is both financial and emotional. In 1980 Munger took Guerin and Buffett fishing, using a borrowed small ski boat on a Minnesota lake. Munger put the throttle in reverse, causing water to pour in and sink the craft that was not designed for operation in reverse. He was trying to get in a better casting position.*

*Tall and lean, Guerin, by far the most athletic (swimmer, tennis player, pilot, sky diver, skier, auto racer, bicyclist and marathoner) of the trio, dove down and freed some life vests from the sunken boat, allowing all three to paddle ashore, fully clothed. That's why Guerin calls Munger, 'Admiral Munger.'*

*Munger said in an interview May 21, 1997 that the incident was never life threatening, but that during the accident Guerin, 'had the most presence of mind.' ...*

*Guerin has said there were no advance conversations with Buffett before Buffett invested.*

*At the PS Group Annual Meeting chairman Charles Rickershauser, also a friend of Buffett's, and CEO George Shortley (Guerin had stepped down to vice chairman of the firm) said*

<sup>229</sup> Kilpatrick, 2001, p.685 ff.

<sup>230</sup> Kilpatrick, 2001, p.805

*Buffett remains a friend of the company, is available for counsel at any time, but in no way tells them how to run their business. ...*

*If Buffett's investing results had an influence on Guerin so too did Buffett's operating style. The influence of Buffett on Guerin is apparent from the annual report: 'PSG's full-time officers total four and the overall corporate staff totals thirteen ... the policy of not discussing PSG operations except by communications sent simultaneously to all shareholders, and by information through public filings or by questions at the annual meeting remains in effect.'*<sup>231</sup>

*"Wells Fargo, the California bank that once owned the Pony Express, announced on October 24, 1990, that Buffett had bought five million shares of its common stock, becoming its largest share holder. ...*

*Buffett had once again taken an important stake in a major American enterprise, a strong franchise headed then by bank chairman Carl Reichardt, Buffett's friend, and then by Reichardt's successor, Paul Hazen.*<sup>232</sup>

*"The people at headquarters are Buffett; Michael A. Goldberg, who oversees the commercial finance businesses; Marc Hamburg, chief financial officer; Daniel J. Jaksich, controller; Jerry W. Hufton, director of taxes; Mark D. Millard, director of financial assets; Debbie Bosanek, Buffett's administrative assistant; Debbie Ray, receptionist; Kelly Muchemore, an administrative assistant whose duties include responsibility for the annual meeting and whose business card reads 'Director of Chaos'; Kerby Ham and Angie Wells, who are in accounting and Ellen Schmidt who is Marc Hamburg's administrative assistant."*<sup>233</sup>

*"In 1991 Buffett and Walter Scott, Peter Kiewit Sons' chairman and Berkshire board member, stepped in to buy a stake in the Omaha Royals, later the Omaha Golden Spikes, a minor league baseball team, when a deal with the previous buyer fell through. ...*

*The hasty announcement was made in the office of Omaha Mayor P.J. Morgan, who said he was surprised to learn that Buffett hadn't visited the mayor's office before then. Buffett replied, 'At a million and a quarter a pop, I can't afford it.'*<sup>234</sup>

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<sup>231</sup> Kilpatrick, 2001, p.807 ff.

<sup>232</sup> Kilpatrick, 2001, p.811 ff.

<sup>233</sup> Kilpatrick, 2001, p.856

<sup>234</sup> Kilpatrick, 2001, p.911

*“Buffett’s elite circle of friends, in fact, retreats every two years to locations such as Lyford Cay in the Bahamas; Dublin, Ireland; Williamsburg, Virginia; the Queen Elizabeth II; Santa Fe, New Mexico; and Victoria, British Columbia. The host for the event gets to pick the location.*

*The group (originally called the ‘Hilton Head Group’ because it once met there) that Buffett calls the ‘Graham Group’ and others call the ‘Buffett Group,’ began in 1968 with 13 people and now has about 60, including Mrs. Graham, Munger, Murphy, Ruane, Tisch, Keough, Gates, Jack Byrne, and Lou Simpson. Sometimes Buffett refers to the group as ‘Our Gang’. During their retreats, the group holds seminars on public policy, investments, charitable giving (whether to do it early in life or late), life’s toughest and silliest moments.*

*One time Munger gave a lecture on Einstein’s Theory of Relativity. Practically no one was interested, but most felt obliged to go, recalls a member. ‘If Buffett was there, he probably understood it. I don’t think anyone else did.’*

*Buffett is friends with such business leaders as Walter Annenberg, and, in fact, advised him to go ahead with the 3 billion sale of his Triangle Publications, which included TV Guide, to Rupert Murdoch. Nancy Reagan is another friend. Mrs. Reagan once sent her son, Ron, to Buffett for a little career counselling.*

*Some descendants of Clarence Barron, one of the early owners of Dow Jones & Co. which publishes ‘The Wall Street Journal’ and ‘Barron’s’ have consulted with Buffett about the company’s performance and stock price.*

*Some of the country’s best and brightest business folks run attractive ideas by Buffett, but usually he just comes up with one or two big ideas a year of his own.*

*It’s a plus that Buffett is on the boards of some of the companies in which Berkshire has investments. He can have some say over how their cash flows are invested, possibly bringing greater value to those companies. On the other hand, companies he invests in may have artificially higher P&Es because of his halo effect.”<sup>235</sup>*

*“Paine Webber insurance analyst, Alice Schroeder, concluded in her 54-page report of January 1999 that Berkshire’s intrinsic value ranged from \$91,000 to \$97,000 a share. The stock was trading at \$65,000 at the time. ...*

*Mrs. Schroeder was the first person from a major brokerage firm to write a report about Berkshire, and more significantly, had Buffett’s blessing to do so.*

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<sup>235</sup> Kilpatrick, 2001, p.930

Schroeder told *'The New York Times'* (January 31, 1999) she *'nearly fell out of the chair'* when Buffett first called. *'He asked if I would do him a favour,'* she said. Buffett, with the acquisition of General Re, wanted the company to be less misunderstood. ...

The *'Times'* quoted a statement from Buffett as saying, *'It was clear to me that she was a superior analyst, both in her knowledge of the insurance business and in her willingness to do the legwork to garner facts. I believe that interested investors can obtain all of the information they need about Berkshire from our published materials, but the quantity available may overwhelm them. Alice may fulfil a useful function by organising and distilling.'*<sup>236</sup>

*"Louis Rukeyser, the noted economic commentator whose 'Wall Street Week With Louis Rukeyser' has been the world's most widely watched television program about money since its inception in 1970, has had a long-time friendly correspondence with Warren Buffett. They had lunch in Omaha on October 28, 1997, and Ruksey wrote about it in the December, 1997 issue of his best-selling financial newsletter 'Rukeysers Wall Street'."*<sup>237</sup>

*"In late October 1994, I [Andrew Kilpatrick] sent a copy of my second book to Buffett via Federal Express's 10:30 a.m. delivery. In about an hour, no more than an hour and a half I got a call from Buffett's assistant, Debbie Bosanek.*

*'He's read your book. He likes your book ... would it be okay with you if he shows up at your book signings?' she asked of three signings I had scheduled in Omaha.*

*Just outside the store, I ran into Gladys Kaiser and stopped to talk, not realising anyone was in the store. When I walked in, I saw the place was full of people. ...*

*After signing books, Buffett and I signed book plates to go in more books that would be shipped to the store.*

*Buffett set the tone for the afternoon by handing me a photo of himself dressed in a Nebraska Uniform with a big number 1 on the jersey. And he gave me a photo for Kermit Kendrick. ...*

*Defying any of Ben Graham's formulas Buffett managed to sell 1,000 of the 700 books, including nameplates for future books. The man can sell books."*<sup>238</sup>

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<sup>236</sup> Kilpatrick, 2001, p.933 ff.

<sup>237</sup> Kilpatrick, 2001, p.1097

<sup>238</sup> Kilpatrick, 2001, p.1113 ff.

### A.3.4 Networking skills

#### A.3.4.i Reference to the person's social competence

##### A.3.4.i.a Self-awareness

*“In the middle of the day Berkshire and International Dairy Queen announced a merger. Berkshire would buy, for about \$585 million in Berkshire stock and cash, the entire ice-cream-and-hamburger chain. Again, Buffett was following his gut instincts, much as he has with See’s, Coke and McDonalds.”*<sup>239</sup>

Others about him:

*“... We put the car in Warren’s garage. I’d work on it. I was the technical fellow and he was the finance guy. Some have said we worked on the car together, but Warren couldn’t put a nut on a bolt or do anything technical. He sat there and read business books to me. He read 100 business books before he left high school. He read other books, too. One was called ‘How to Lose Friends and Alienate People’.*

*‘Sometimes he’d have me give him about 20 two-digit numbers to add in his head,’ said Danly, who went on to Cornell. Danly would add the figures with the aid of paper and pencil. ‘He’d be right,’ Danly marvelled.*

*Danly was one of 11 students to tie for first in the 1947 class at Woodrow Wilson. He said Buffett was 16<sup>th</sup> in the class of about 350. ‘He did that without even trying. I hit the books hard.’”*<sup>240</sup>

And:

*“‘What I had forgotten, but he remembered, is that he was out for three weeks with appendicitis. He was very ill and the other students wrote him,’ recalls Marie Madsen, his second grade teacher.*

*‘He was never a problem or I would have remembered that. He was a good boy. ... He was a good student and kept his nose to the grindstone. ...*

*She said her overall impression of him during his years at Rosehill was as a young fellow ‘who wanted to go off and do something himself.’”*<sup>241</sup>

<sup>239</sup> Kilpatrick, 2001, p.485

<sup>240</sup> Kilpatrick, 2001, p.41

<sup>241</sup> Kilpatrick, 2001, p.51

And:

*“Those who knew Buffett were aware of his abilities, but those who knew him only casually may not have taken note because of his lack of outward success. He may have reminded people of Joseph Heller’s saying: ‘He was a self-made man who owed his lack of success to nobody.’”*<sup>242</sup>

And:

*“‘He was always so quick and witty...He was a great guy, lots of fun but it was obvious he was way ahead of us in brains,’ she said.”*<sup>243</sup>

And:

*“Irving Kahn, head of Kahn Brothers & Company, Inc. in New York, worked for Graham for 27 years at Columbia and Graham-Newman, and recalls young Buffett at Graham-Newman as Graham’s prized protégé.*

*‘He was much the same as he is now but he was a brash, cocky young guy...He was always busy on his own. He has tremendous energy. He could wear you out talking to you. He was very ambitious about making money,’ said Kahn, adding that Buffett had an extraordinary understanding of how business worked.”*<sup>244</sup>

And:

*“‘Warren really is a very uncomplicated person. He’s a super nice guy who just keeps things simple,’ O’Connor said.*

*‘He is truly a remarkable person. His technical knowledge and his humour are unique. It’s truly entertaining to be associated with him...He has an insatiable thirst for knowledge. He reads from all sources and he has a photographic memory that helps him recall and reconstruct things in an orderly, logical fashion...*

*‘He plays a little tennis and golf, but I think he’d rather read and play bridge - than anything.’”*<sup>245</sup>

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<sup>242</sup> Kilpatrick, 2001, p.52

<sup>243</sup> Kilpatrick, 2001, p.53

<sup>244</sup> Kilpatrick, 2001, p.73 ff.

<sup>245</sup> Kilpatrick, 2001, p.76

And:

*“The main focus of his charity efforts is toward reproductive freedom (pro-choice). His efforts for civic and charity causes may be just beginning. After all, he is leaving his fortune to the Buffett Foundation which will give it back to society.*

*Some have described him as almost reclusive.*

*‘He’s not comfortable around people he doesn’t know. He’s even a little shy. He doesn’t like parties. He would be happy in a one-room apartment with his Wall Street Journal, his TV and a Pepsi (now Coke),’ said his daughter, Susan ...*

*One of Buffett’s pals who attended a New Year’s party the early 1980s has said Buffett spent the bulk of the party off in a corner, killing time until he could leave. Neighbours rarely see him. He is not much of a yardman and doesn’t work in his well-tended yard himself. Instead he spends time indoors reading or attending board meetings related to Berkshire’s far-flung empire. At his office, very few people drop in-maybe two or three people a week will get a short audience - and they do not include stockbrokers or analysts.*

*But he has an extraordinarily wide range of friends with whom he stays in contact by phone and letter. He occasionally lectures at colleges such as Columbia, Stanford, Harvard, Yale, Notre Dame, Vanderbilt, M.I.T., and Creighton University in Omaha. Dartmouth’s Amos Tuck School induced him to speak in May 1993 for the dedication of the business school’s Byrne Hall. It’s in honour of his long-time friend, Jack Byrne, a top figure in the insurance world who once headed GEICO and later Fund American Enterprises. ...*

*Buffett almost never goes on television and rarely grants an interview. However, he’s gregarious around friends. He hoards a good portion of his time for reading and studying. Although some people have described him as shy, he can talk up a storm and dominate conversations.*

*And if he is shy, it does not mean he doesn’t have confidence in his abilities. After all, he has said he has known all along, even as a youngster, that he would be rich. Anyone starting an investment partnership in his own bedroom has to have confidence and ignore those pushing him to get a real job.”<sup>246</sup>*

And:

*“He said Buffett has self-confidence, but is not arrogant. ‘That there’s no arrogance is the remarkable thing about him,’ Carret said.”<sup>247</sup>*

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<sup>246</sup> Kilpatrick, 2001, p.137 ff.

<sup>247</sup> Kilpatrick, 2001, p.626

And:

*“Ruane has described his relationship with Buffett as being like ‘the caddy for Tiger Woods.’”<sup>248</sup>*

About himself:

*“Buffett’s bio in the 1947 Woodrow Wilson yearbook is a little thin compared with his classmates: ‘W. Club, Debate Team, Golf Team. A sportsman ... basketball and golf: the favourites ... likes math ... a future stock broker.’”<sup>249</sup>*

And:

*“I keep an internal scorecard. If I do something that others don’t like but I feel good about, I’m happy. If others praise something I’ve done, but I’m not satisfied, I feel unhappy.”<sup>250</sup>*

And:

*“His biggest strength: ‘I’m rational. Plenty of people have higher IQs, and plenty of people work more hours, but I am rational about things. But you have to be able to control yourself; you can’t let your emotions get in the way of your mind.*

*‘In 1986, my biggest accomplishment was not doing anything stupid. There is not much to do: there is not much available right now. The trick is, when there is nothing to do, do nothing.’*

*‘I love what I do. All I want to do is do what I’m doing as long as I can. Every day I feel like tap dancing all through the day. I really do.’”<sup>251</sup>*

And:

*“I was lucky to be wired the way I am fit very well into a big market, where allocation of capital is an important and well-paid function ... If the money was in high-jumping, I couldn’t be making any money ... If the money was in spelling, I probably wouldn’t be making any money. I was lucky. I applied myself to it but it has been a lot of fun, so why shouldn’t I? It doesn’t make me superior to anybody who is leading a boy scout troop in Omaha in terms of helping the community. I was just in the right place at the right time.”<sup>252</sup>*

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<sup>248</sup> Kilpatrick, 2001, p.630

<sup>249</sup> Kilpatrick, 2001, p.41

<sup>250</sup> Kilpatrick, 2001, p.1058

<sup>251</sup> Kilpatrick, 2001, p.1064

<sup>252</sup> Kilpatrick, 2001, p.1084

He seems to be able to monitor himself:

*“He felt his public speaking was inadequate, so he paid \$100 and took a Dale Carnegie course when he was 21.”*<sup>253</sup>

And:

Similarly: while he appreciates his abilities, he also recognises and openly admits those things he cannot do. Buffett has specifically problems understanding technology, and says so, too:

*“Buffett told Forbes (October 18, 1993), ‘Bill Gates is a good friend, and I think he may be the smartest guy I’ve ever met. But I don’t know what those little things (computers) do.’ ...*

*‘I’d walk by a PC and be afraid it might bite me, but once I got started it was easy. Bridge is the only thing I know how to do with the machine.’ ...*

*Buffett told ‘Nightline’s’ Ted Koppel (March 2, 1999) ‘He spent nine hours explaining Microsoft to me. Couldn’t have been a better teacher. Couldn’t have had a dumber student. But I still understood a fair amount of what he was saying because he is a good teacher and I bought 100 shares when I got all through it. That shows you how many dumb things you can do in this world.’*<sup>254</sup>

And:

*“Buffett has earned success through a love of what he’s doing, an ability to keep on learning as well as through extraordinary day-to-day persistence. But for all his ability, he knows what he cannot do.*

*‘I don’t run the businesses. Can you imagine me doing what (Borsheim’s former president) Ike Friedman does?’ he has said.*

*Buffett takes a common sense approach about letting others run the businesses, but he does assert himself in some ways. ...*<sup>255</sup>

And:

*“Once a shareholder asked Buffett what he thought of pharmaceutical stocks he said that was not the sort of thing Berkshire had expertise in. (Of course that was before he bought some Bristol-Myers Squibb stock in 1993.) ...*

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<sup>253</sup> Kilpatrick, 2001, p.68

<sup>254</sup> Kilpatrick, 2001, p.134

<sup>255</sup> Kilpatrick, 2001, p.590 ff.

*In a way they are like his forbidden category of technology stocks, a group whose performance Buffett says he has no way of predicting, because he knows little about present technology and even less about future competitors' technologies.*

*Buffett would say there are others who can make those determinations better than he about technology or pharmacology-but then he is not sure their determinations are so hot either. It's too tricky an area for a sensible investor trying to cut risks and guesswork. ...*

*I could spend all my time thinking about technology for the next year and still not be the 100<sup>th</sup>, 1,000<sup>th</sup> or even the 10,000<sup>th</sup> smartest guy in the country analysing those businesses. There are people who can analyse technology, but I can't.*"<sup>256</sup>

And:

*"Once Buffett asked a lady, Betty Davis, on the elevator at Omaha's City-County Building, 'Do you know what floor the mayor's office is on?'*

*'Third floor,' she said.*

*Buffett thanked her and punched the button.*

*'I have a favour to ask you,' Ms. Davis said. 'Do you mind if I tell people I told Warren Buffett where to get off?'*

*'Not at all,' Buffett said, adding, 'People are always telling me where to get off.'*"<sup>257</sup>

Analytical skills:

*"While most youngsters were content to get sodas out of machines and never give things a further thought, Buffett was retrieving the discarded bottle caps from soda pop machines, sorting and counting them to find out which soda brand was really selling,' says Berkshire shareholder Irving Fenster of Tulsa, Oklahoma, one of Buffett's early investors."*<sup>258</sup>

And:

*"Buffett's decision to buy the company was easy. 'It was a no-brainer. I wish I could find 50 more like it.'*

*'Most of the businesses we've bought on the first visit. See's Candy, I went out there one time to see the grandson of Mary See. His name was Harry See ... We had a deal. We understood the kind of position they held in consumers' minds and pricing flexibility and so on.*

*'Did I think they could charge 20 cents a pound more for candy? Sure. And sure enough, they could,' he said in a talk to Columbia business students, October 27,1993. ...*

<sup>256</sup> Kilpatrick, 2001, p.601 ff.

<sup>257</sup> Kilpatrick, 2001, p.911

<sup>258</sup> Kilpatrick, 2001, p.50

*When Buffett bought See's for chocoholics everywhere - a company that may be a subtle plug for Gillette's Oral-B toothbrushes he put Charles Huggins in charge.*"<sup>259</sup>

And:

*"Buffett told 'Night line's' Ted Koppel (March 2, 1999), in an interview at a Dairy Queen in Omaha: 'It was a business that I could understand. Now, there's all kinds of business I can't understand and I try not to buy into those because ..., why should I expect to make money on something I can't understand? So I'm not in any high tech businesses, for example. But I understand, you know, an ultimate hamburger or, you know, a Peanut Buster or a Dilly Bar and I can handle that. And I like the people that run it. I like the economics of the business. It's a good business.'"*<sup>260</sup>

And:

*"Berkshire bought The Scott & Fetzer Company of Cleveland, Ohio, in early 1986 for \$315 million. Scott Fetzer doubled Berkshire's sales to about \$2 billion. Scott Fetzer had been on the auction block since 1984, but nothing had clicked. Finally a plan involving heavy Employee Stock Ownership Plan participation was approved by shareholders. But when difficulty arose in closing, the plan was dropped.*

*Buffett's ever watchful eye tracked the progress, or lack thereof, in the newspapers. He phoned Chief Executive Ralph Schey and asked for a meeting. Schey is an unusual businessman who has found the time to be actively involved with The Cleveland Clinic, Ohio University, Case Western Reserve and a venture capital firm that has backed a number of Ohio firms.*

*Buffett and Munger dined with Schey in Chicago on October 22, 1985. The following week, a contract was signed.*"<sup>261</sup>

And:

*"At home in his favourite reading chair one night, Buffett was looking through the 1988 Gillette Annual Report, when it occurred to him Gillette could use more capital. 'It was my thought that they might be interested in a big investment in their shares because they had used up all their capital in repurchasing shares,' Buffett has said.*"<sup>262</sup>

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<sup>259</sup> Kilpatrick, 2001, p.397 ff.

<sup>260</sup> Kilpatrick, 2001, p.488 ff.

<sup>261</sup> Kilpatrick, 2001, p.423

<sup>262</sup> Kilpatrick, 2001, p.515 ff.

And:

*“At the Berkshire Annual Meeting in 1993, talking about the number of annual reports he reads, Buffett said, ‘And we’d be interested not only in any business that we own or are thinking of owning, but we’ll be interested in reading their competitors’. I get the Bic Annual Report. I get the Warner-Lambert Annual Report to read about Schick. I get the Pepsico Annual Report. I get the Cott Beverage report. Cott Beverage makes more of the generic colas than anybody - at least in this hemisphere. I want to know what competitors are doing and talking about, what results they are getting and what strategies seem logical to them.”*<sup>263</sup>

And:

*“When the reading puts him on to something, he’ll do some informal field research. In one case in 1965, Buffett says he spent the better part of a month counting tank cars in a Kansas City railroad yard. He was not, however, considering buying railroad stocks. He was interested in the old Studebaker Corp., because of STP, a highly successful gasoline additive. The company wouldn’t tell him how the product was doing. But he knew that the basic ingredient came from Union Carbide, and he knew how much it took to produce one can of STP. Hence, the tank-car counting. When shipments rose, he bought Studebaker stock, which subsequently went from 18 to 30.*

*On occasion Buffett has asked Omaha cab drivers how their business is doing. He’s always watching, asking, reading, and looking for investment possibility.”*<sup>264</sup>

And:

*“General Dynamics announced July 23, 1992, that Berkshire had bought 8.7 million shares, counting for 2-for-1 split in 1994, for \$312 million. Buffett had bought 15% of the nation’s second largest defence can tractor. ...*

*GD spokesman Ray Lewis explained that Buffett bought the stock in the open market just as the Falls Church, Virginia-based defence giant completed a \$957 million repurchase of its own shares. ...*

*Buffett explained in the 1992 Annual Report:*

*We were lucky in our General Dynamics purchase. I had paid little attention to the company until last summer, when it was announced It would repurchase about 30% of its shares by way of a Dutch tender. Seeing an arbitrage opportunity, I began buying the stock for Berkshire, expecting to tender our holdings for a small profit. We’ve made the same sort of*

<sup>263</sup> Kilpatrick, 2001, p.585

<sup>264</sup> Kilpatrick, 2001, p.602

*commitment perhaps a half-dozen times in the past few years, reaping decent rates of return for the short periods our money has been tied up.*

*But then I began studying the company and the accomplishments of Bill Anders in the brief time he'd been CEO. And what I saw made my eyes pop: Bill had a clearly articulated and rational strategy; he had been focused and imbued with a sense of urgency in carrying it out; and the results were truly remarkable.*

*In short order, I dumped my arbitrage thoughts and decided that Berkshire should become a long-term investor with Bill.”<sup>265</sup>*

And:

*“Always looking for that edge, Buffett early on took a fancy to GEICO, the auto insurance company that sells by mail and telephone.”<sup>266</sup>*

Learning valuable lessons:

*“During college, at Penn and later at the University of Nebraska, he was regional circulation manager for the Lincoln Journal, supervising 50 paper boys in six rural counties. He also found time to work for L.C. Penney. While at Penn, he worked at Penney's in Omaha one summer and during a Christmas vacation. He made 75 cents an hour selling men's shirts and has joked, ‘I became an authority on the Minimum Wage Act.’ The upside, however, was that Buffett saw firsthand how business worked.”<sup>267</sup>*

And:

*“Berkshire Vice Chairman Charles Munger says one of the turning points for Berkshire was this: ‘See's Candy. It was acquired at a premium over book (value) and it worked. Hochschild, Kohn, the department store chain, was bought at a discount. It didn't work. Those two things together helped shift our thinking to the idea of paying higher prices for better businesses.’ ...*

*With See's Candy, Buffett and Munger learned the real lesson of pricing power. ...*

*Buffett has said, ‘Charlie shoved me in the direction of not just buying bargains, as Ben Graham had taught me. This was the real impact he had on me. It took a powerful force to*

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<sup>265</sup> Kilpatrick, 2001, p.825 ff.

<sup>266</sup> Kilpatrick, 2001, p.285

<sup>267</sup> Kilpatrick, 2001, p.63

*move me on from Graham's limiting views. It was the power of Charlie's mind. He expanded my horizons.' ... Buffett has said Munger's impact on him has been 'huge.'*<sup>268</sup>

He seems to be self-confident:

*"And if he is shy, it does not mean he doesn't have confidence in his abilities. After all, he has said he has known all along, even as a youngster, that he would be rich. Anyone starting an investment partnership in his own bedroom has to have confidence and ignore those pushing him to get a real job."*<sup>269</sup>

And: He makes his decisions even when most people around him think differently:

*"... He spent about five hours with me that day. He explained the whole insurance business to me, how it worked and how GEICO worked. And I became totally enamoured of it.' ...*

*'And then I came back to New York, back at school, and I went downtown to talk (to) ... big insurance specialists. And everyone of them told me that (GEICO) was way overpriced compared to these other companies, for all kinds of reasons. And it didn't make any sense to me ...'*

*Only 21 at the time, Buffett invested \$10,282 in GEICO in 1951. In 1952 he sold out for \$15,259 mainly to switch the money into Western Insurance Securities selling at one times earnings. ...It (GEICO) was a company selling insurance at prices well below all the standard companies, and making 15% profit margins. It had an underwriting cost then of 13% or so, whereas the standard companies had probably 30% to 35% cost. It was a company with a huge competitive advantage, managed by the guy that was my god."*<sup>270</sup>

#### **A.3.4.i.b Self-regulation**

He is against running up debts, believing one should work and live within the means that one has, rather than getting into debts:

*"If we take Buffett's \$30 billion asset figure now, ... let's consider his debts. There are none. For years his only debt was a \$70,000 mortgage which he has paid off. The mortgage was on a three bedroom, two-bath second home he bought in 1971 in Laguna Beach, California, at Emerald Bay, overlooking the Pacific Ocean, where he goes at Christmas. ...*

*Buffet's assets-to-debt ratio clearly qualifies as one of the most important concepts he wants in an investment 'Margin of Safety.'*

<sup>268</sup> Kilpatrick, 2001, p.867

<sup>269</sup> Kilpatrick, 2001, p.138 ff.

<sup>270</sup> Kilpatrick, 2001, p.285 ff.

*Speaking to Salomon Inc's clients on September 13, 1991, about his distaste for debt, Buffett said, 'You're looking at a fellow who owes \$70,000 on a second home in Laguna and I've got that because of the low rate...and that's all I've owed for I don't know how many years.' ... 'If you're smart, you don't need debt. If you're dumb, it's poisonous,' he said.'*<sup>271</sup>

The following quote shows that he overcomes his dislikes if need be:

*"This was the second time, not the first, that Buffett rescued Salomon. ...*

*For Buffett, who far prefers his quiet existence in Omaha, it was an action-packed time of racing from Omaha to New York and Washington and living out of a suitcase.*<sup>272</sup>

Overcoming his fears:

*"As a child he was so cautious he walked with his knees bent so he wouldn't have too far to fall, but as an adult he was capable of grand gestures...It was a broad stroke,' Mrs. Bryant said ..."*<sup>273</sup>

He is very conscientious, passionate about his business ventures, even at a very young age:

*"In Washington, Buffett attended Alice Deal Junior High School, where his grades were poor. They improved only when his father threatened to take away his cherished paper routes. (While still 13, Buffett began paying taxes on an income of \$ 1,000 he earned from newspaper routes.)*

*Still rebellious and looking for his place in the world, Buffett hit once again on his main passion - business.*

*He undertook a series of financial ventures, including retrieving lost golf balls at a country club in Washington, but his main pursuit was being an industrious newspaper boy.*

*Buffett at one point delivered 500 newspapers on five paper routes, mainly to apartment complexes, according to Robert Dorr of the 'Omaha World-Herald'.*

*Buffett combined two 'Washington Post' routes in the Spring Valley area with two rival 'Times-Herald' routes and later added the Westchester apartments to his routes. ...*

*'Collections were everything to him. You didn't dare touch the drawer where he kept the money. Every penny had to be there,' his mother said. ...*

*'Thinking he could better use the time to collect from his customers, he developed an effective scheme for selling magazine subscriptions. He would tear the stickers with the expiration*

<sup>271</sup> Kilpatrick, 2001, p.12 ff.

<sup>272</sup> Kilpatrick, 2001, p.31 ff.

<sup>273</sup> Kilpatrick, 2001, p.49

*dare from discarded magazines, file them, and at the right time ask the customer for a renewal,' Dorr wrote in a May 29, 1966, story.*"<sup>274</sup>

He seems to be able to restrain himself:

*"In 1969, Buffett determined that he could no longer find real values-buying a business or part of a business at wide discount to its intrinsic business value-and he decided to dissolve the highly successful partnership.*

*The partnership - after 13 years of average annual 30% growth was worth \$100 million; Buffett's stake about \$20 million. Buffett, then 38, wrote his limited partners:*

*'I am out of step with present conditions. When the game is no longer played your way, it is only human to say the new approach is in wrong, bound to lead to trouble, and so on ... On one point, however, I am clear. I will not abandon a previous approach whose logic I understand (although I find it difficult to apply) even though it may mean foregoing large, and apparently easy, profits to embrace an approach which I don't fully understand, have not practiced successfully, and which possibly could lead to substantial permanent loss of capital.'*

...

*Three years after the Buffett Partnership was disbanded, the market suffered one of its worst periods in decades, the 1973-74 collapse.*

*Guess who was buying in 1973? In the spring and summer of 1973, Buffett picked up media and advertising Stocks at rock-bottom prices, including \$10.6 million in Washington Post Co. shares.*"<sup>275</sup>

And:

*"There is rarely any pomposity or moodiness in this multi-billionaire. People who have known him for years say they have never seen him angry. His response to things is not anger, but rationality. His reply to things that are okay with him is usually: 'Yeah, sure.' If something displeases him, his reply can be, 'We don't need any of that.'*

*He responds to the world by examining it thoroughly and in a positive and witty way. He often delivers self-deprecating humour as in 'Your Chairman has blundered again,' or offers stories about how he studied the soft drink industry for more than 50 years and eventually determined that the industry's two main rivals, Coca-Cola and Pepsi-Cola, have both done well.*

<sup>274</sup> Kilpatrick, 2001, p.59 ff.

<sup>275</sup> Kilpatrick, 2001, p.80 ff.

*Those who have worked with him describe him as almost unfailingly upbeat and supportive, practically never testy. He works hard.”<sup>276</sup>*

And:

*“Warren Buffett is returning to the U.S. from Europe in a private jet. As his plane nears its destination, the flight attendant gives out landing cards and a warning to all eight passengers aboard. ‘The customs inspector here is utterly humourless,’ he says, ‘so no wisecracks or he will tear the plane apart from fore to aft.’ Buffett, who quips as reflexively as he breathes, takes his card without comment.*

*‘In the terminal a surly looking man with a crew-cut and a pistol on his hip sits behind a small table. Buffett hands over his passport and landing card to the inspector, who does not seem to realise that the professorial-looking 68-year-old standing before him is America’s second-richest man. Or perhaps he just gets a kick out of trying to take the high and mighty down a peg. ‘You left some things blank,’ The inspector says peevishly, ‘Do you have \$10,000?’*

*‘The question could have launched a dozen snappy retorts, but Buffett restrains himself. ‘I have what I left with,’ he says carefully. The inspector furrows his brow - was that some kind of joke? - but does not press the issue. He asks Buffett if he has anything else to declare. ‘I was given two books,’ Buffett says. ‘Well, you have to put it down, then,’ snaps the agent, who fills in the blanks himself.*

*‘Buffett shows not a flicker of annoyance at being treated like a misbehaving child. He stands mute and impassive before the inspector, who, after a few more curt remarks, can think of nothing else to do but let the ‘Oracle of Omaha’ be on his way.”<sup>277</sup>*

And:

*“Back in 1983 when Buffett bought Nebraska Furniture Mart, he asked the Blumkin family ‘Are there any others like you out there?’ The Blumkins gave him three stores, according to Steven Hoover, head of Hoover Capital Management in Boston, Massachusetts.*

*‘But at the time none of the three was for sale. So he waited patiently, stepped forward when the families were finally ready to sell, and Berkshire now owns all four of what may arguably be the most profitable home-furnishings retailers in the nation,’ Hoover said.”<sup>278</sup>*

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<sup>276</sup> Kilpatrick, 2001, p.143 ff.

<sup>277</sup> Kilpatrick, 2001, p.153 ff.

<sup>278</sup> Kilpatrick, 2001, p.501

And:

*“... Buffett was asked about the Cochran story at the Berkshire annual meeting in 1994. You’d think Buffett would be tempted to say something to Cochran - something like Felix Unger - but ever the gentleman Buffett said: ‘I hope he hasn’t been shorting the stock. It’s not the way I’d calculate it ... apparently he forgot we were in the insurance business.’ Then Buffett launched into a dissertation about not making stock market decisions based on what others say, only on what you understand about the business.”*<sup>279</sup>

*“Patience: ‘You don’t trade in houses, children and wives every year, so why trade companies around. I want to have fun with the companies, see them grow and develop. And also, I want to enjoy life. I can’t understand the Carl Icahn’s, Victor Posner’s and Ted Turner’s of the world. In the end all my money is going to charity. So it’s crazy to live by being in uncomfortable situations, or being unpleasant towards others. What’s the difference anyway, if the Buffett Foundation is worth ‘X’ or ‘2X’ at the end...”*<sup>280</sup>

He is described as a rational man when it comes to business decisions:

*“Buffett is a caring person, but when it comes to business decisions he just boils it all down to facts and reasons.”*<sup>281</sup>

Realising his own mistakes:

*“Even Buffett, in looking back over what he said were the mistakes of the first 25 years, said his first mistake was buying Berkshire. Although he recognised it as an unpromising business, he bought in because of the low price, figuring that, at worst, he could wring out more cash than he paid and use it to buy other businesses.”*<sup>282</sup>

And:

*“... ‘My mistake was I didn’t think price competition would get that bad. The cost side, of course, has been abysmal as well as the result of events in the Middle East,’ Buffett said at the annual meeting in 1991.”*<sup>283</sup>

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<sup>279</sup> Kilpatrick, 2001, p.923

<sup>280</sup> Kilpatrick, 2001, p.1057

<sup>281</sup> Kilpatrick, 2001, p.180

<sup>282</sup> Kilpatrick, 2001, p.200

<sup>283</sup> Kilpatrick, 2001, p.564

And:

*“On learning from mistakes: ‘I guess I had too much inclination originally to buy mediocre, or worse than mediocre, businesses at a very cheap price. That works OK, in the sense that you never lose money; but you never end up with a great business that way either. So that emphasis has shifted over the years. We don’t want to buy the worst furniture store in town at the cheapest price; we want to buy the best one at a fair price.’”<sup>284</sup>*

*“Buffett’s view about keeping costs low, paying bills and collecting or bills promptly is not just talk. At Berkshire, it’s a reality. Buffett has always said good managers know their costs down to how much goes for postage. And better than knowing the cost of a stamp is finding a way around using one in the first place. ... The point is Berkshire keeps its costs down.”<sup>285</sup>*

*“He stressed common sense, discipline, and patience, as opposed to IQ, as the key to investing. When asked what is the key to picking good stocks, Buffett responded, ‘understanding and picking good businesses ...’”<sup>286</sup>*

#### **A.3.4.i.c Motivation (also to do with handling set backs and frustrations)**

*“For all his splendid long record - even with the surprising setbacks of the past couple of years - Buffett serves as the business muse of the world.”<sup>287</sup>*

*“At the urging of his father - and it took some doing to convince Buffett to go to college instead of going on with his business pursuits - he headed for the Wharton School of Business at the University of Pennsylvania. There he was president of the Young Republicans’ Club and found time to make arrangements to rent an elephant to ride in a Republican victory parade, but Truman upset Dewey and the plans were cancelled. At the University of Pennsylvania, Buffett learned to play bridge. (Forbes, June 2, 1997) And he pledged Alpha Sigma Phi fraternity his freshman year. He was at Penn from 1947 to 1949 and then transferred in his junior year to the University of Nebraska-Lincoln College of Business Administration, where he earned a B.S. degree in 1950. He breezed through both schools, earning his degree in just three years. Even as he worked at the college papers, played bridge*

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<sup>284</sup> Kilpatrick, 2001, p.1064

<sup>285</sup> Kilpatrick, 2001, p.901 ff.

<sup>286</sup> Kilpatrick, 2001, p.1033

<sup>287</sup> Kilpatrick, 2001, p.15

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*and made A's in his courses, Buffett found time for money making activities, once submitting a dozen entries trying to win a \$100 Burma-Shave jingle contest.”<sup>288</sup>*

The following quote illustrates his drive and ambition:

*“During college, at Penn and later at the University of Nebraska, he was regional circulation manager for the Lincoln Journal, supervising 50 paper boys in six rural counties. He also found time to work for L.C. Penney. While at Penn, he worked at Penney's in Omaha one summer and during a Christmas vacation. He made 75 cents an hour selling men's shirts and has joked, 'I became an authority on the Minimum Wage Act.' The upside, however, was that Buffett saw firsthand how business worked.*

*About this time he rounded up 220 dozen golf balls and sold them to Jerry Orans for \$1,200.”<sup>289</sup>*

Seeing the good in the bad:

*“... When the interview was over, so were Buffett's prospects at Harvard, and so too was the infallibility of the Harvard admissions office. ...*

*The rejection stung, but it turned out to be for the best because he soon realised that the greatest business professor was teaching at Columbia. Buffett applied to Columbia Business School, was immediately accepted, and graduated in June 1951.”<sup>290</sup>*

*“To begin working at home in his bedroom took courage. Not many young people would make much of an impression if they announced they were going to their bedroom to start a business.”<sup>291</sup>*

*“I asked my dad one question that, if he had answered differently, I might not have run for office. I asked him if he thought voters would think less of you if you ran for political office and lost. Dad instantly responded: 'Not at all. People will respect you if you are willing to participate and put yourself on the line,’”<sup>292</sup>*

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<sup>288</sup> Kilpatrick, 2001, p.62 ff.

<sup>289</sup> Kilpatrick, 2001, p.63

<sup>290</sup> Kilpatrick, 2001, p.64

<sup>291</sup> Kilpatrick, 2001, p.75

<sup>292</sup> Kilpatrick, 2001, p.181

He is straight forward and gets what he wishes to get:

*“He (Buffett) walked into the store and said, ‘Today is my birthday and I want to buy your store. How much do you want for it?’ I tell him ‘\$60 million.’ He goes, gets a check and comes back right away,’ Mrs. Rose Blumkin, known as Mrs. B, once said. ...*

*Although Buffett just walked in and bought the store, it is not as though he hadn’t thought about it for a long time. More than 10 years before the purchase, he was telling journalist Adam Smith it was a good business.*

*‘We are driving down a street in Omaha and we pass a large furniture store. I have to use letters in the story because I can’t remember the numbers. ‘See that store?’ Warren says. ‘That’s really a good business. It has ‘a’ square feet of floor space, does an annual volume of ‘b’, has an inventory of only ‘c’, and it turns over its capital at ‘d’, ...*

*‘Why don’t you buy it?’ I said.*

*‘It’s privately held,’ Warren said.*

*‘Oh,’ I said.*

*‘I might buy it anyway,’ Warren said. ‘Someday.’*

*The Nebraska Furniture Mart, founded in 1935, is a whopper of a furniture store - the largest single home-furnishings complex in the United States. ...*

*‘Anybody would learn a lot more from watching this business for a few months than from going to business school,’ Buffett says.*

*When Buffett was buying the store, he did not even order an inventory check until the deal was completed; and when Mrs. B, who never spent a day of her life in a school room, asked where were his accountants, lawyers, and investment bankers, he replied, ‘I trust you more.’ The contract was one page long and Mrs. B signed by simply making a mark. She never learned to read or write English.”<sup>293</sup>*

Here Buffett describes the kind of drive he looks for in entrepreneurs:

*“Buffett was quoted as saying: ‘I’ve never done what you could call real due diligence when buying a company. I look for people who are in love with their businesses. Anyone who spends five minutes with Rich Santulli can tell that about him. Rich is a managerial artist. It’s my job to bring him the canvas, paint and brushes. He was the one who, in 1986, saw an opportunity over the horizon, that didn’t exist yet, and made it work - through tough times. That’s the kind of vision and commitment I look for.’”<sup>294</sup>*

<sup>293</sup> Kilpatrick, 2001, p.413 ff.

<sup>294</sup> Kilpatrick, 2001, p.494

Doing something because it needs to be done, even if he rather did not:

*“Gutfreund told a colleague that reading the Wall Street Journal story about top Salomon officials knowing about illegal bidding was like reading his obituary. (Institutional Investor, September, 1991) He called Buffett and said that he and Strauss were going to resign. Later that morning, Buffett called Gutfreund back and volunteered to head the firm on an interim basis. In the same interview, Buffett said:*

*‘You won’t believe this - because I don’t look that dumb - but I volunteered for the job of interim chairman. It’s not what I want to be doing, but it will be what I will be doing until it gets done properly.’”<sup>295</sup>*

*“Although a stratospheric IQ probably accounts largely for Buffett’s success, so too does plain old hard work. He’s a combination of a sort of genius squared who pushes very hard. Those who work with him in his office say he has a great ability to focus hard, to concentrate completely on the task at hand. ‘He focuses very hard on the task at hand and then he focuses very hard on the next task,’ said a Berkshire employee.”<sup>296</sup>*

*“‘You should understand just what an average gain of 15% over the next five years implies: It means we will need to increase net worth by \$58 billion. Earning this daunting 15% will require us to come up with big ideas: Popcorn stands just won’t do. Today’s markets are not friendly to our search for ‘elephants’, but you can be sure that we will stay focused on the hunt.’”<sup>297</sup>*

#### **A.3.4.i.d Empathy**

*“Buffett gets many requests about matters that often have nothing to do with finance. In the case of Matthew Troxel, it involved simply writing an encouraging letter for his recovery from a near fatal illness.*

*Matthew, 24 at the time and now 29, was a compliance officer for Lind-Waldock & Company, the nation’s largest discount commodity futures and options brokerage house, and enrolled in graduate school courses full time at the Illinois Institute of Technology at the time of his illness. ...*

*His illness caused burning and blistering of six layers of skin from head to knee. He suffered heart, lung and kidney failure. This was caused by a necrotic bowel, a part of his intestine*

<sup>295</sup> Kilpatrick, 2001, p.539

<sup>296</sup> Kilpatrick, 2001, p.584

<sup>297</sup> Kilpatrick, 2001, p.1082

*that died. He was left deaf in his left ear. He had permanent nerve damage to his feet and wrists and his throat was burned and scarred shut. If that were not enough, he was rendered blind. ...*

*On March 31, 1996 he wrote Buffett of his condition and said he had plenty of time in the past year to listen to audio books about him and was inspired by his success. In part Matthew wrote: 'My chances of survival were less than 5% and only one in a million get this syndrome in the manner I did. Since stock market theorists consider you a statistical 5 Sigma event, I guess we share something in common.'*

*So what can anyone possibly write to Matthew under the circumstances? Here's Buffett's reply to him of April 4, 1996: 'Dear Mr. Troxel: You are indeed a '5 Sigma Event.' I admire your spirit enormously and know that you are going to lead a productive life. Best of luck to you. Sincerely, Warren E. Buffett.'*

*Matthew said, 'His response to my correspondence made me feel very special because someone like Warren Buffett does not often make time for an ordinary person to provide inspiration and encouragement to lead a productive life. It is not every day that a person who has achieved such profound success writes to an average person and tells him or her they have value.' Matthew added, 'When Warren Buffett told me I was valuable, believe me, it was motivating and inspiring.' ...*

*The severity of the syndrome's attack had caused a form of pulmonary fibrosis in Matt's lungs.*

*Given the grim news Matt again wrote Buffett again to ask if he could spend a day with him. Matt received the surprise of his life when Buffett invited him for lunch. The invitation extended to his mom Cheryl, his stepfather, Tom Kehoe and his fiancée Terri. He also let the author tag along. The lunch took place at the Omaha Club after the special General letting September 16, 1998. ...*

*On May 7, 1999 Troxel wrote Buffett that he hoped to make the annual meeting, but his doctors had advised against it. It turned out Matt had to make a visit to the emergency room the day before but was released 'which means death and I returned to our respective corners in the ring.'*

*Here's Buffett's reply of March 18, 1999:*

*Dear Matt,*

*I've been away for almost two weeks or you would have heard from me sooner. At annual meeting time I kept inquiring about you. When I found out you weren't in attendance, I knew*

*you must be having health problems. It's great to know that once again you have proven your superiority over illness and that - tough it may be a 15-round fight -, to emerge the winner. As you may have read, we had a great time at the meeting, but it will be better next year when you can make it. I'm enclosing my most recent claim to fame (a short item about being one of Nebraska's sexiest men). You can tell Terri, however, that if the contest were being held in Chicago, I would not stand a chance against you. ...*

*On July 6, 1999 Buffett wrote Matt sympathising about his lung transplant search adding, 'I'm sending along a copy of your letter to Charlie to see if he has any suggestions. (Munger is board chairman of a hospital in Los Angeles.) You're right that it ain't over till it's over. Meet St. Peter before you do, and he's not expecting me for another 30 years.'*<sup>298</sup>

#### **A.3.4.i.e Social skills**

*"But his immersion in business has done nothing to hamper a great sense of fun and sophisticated sense of humour, whether it be needling himself, Wall Street, or general human conduct."*<sup>299</sup>

*"But he has an extraordinarily wide range of friends with whom he stays in contact by phone and letter. ...*

*Buffett almost never goes on television and rarely grants an interview. However, he's gregarious around friends. He hoards a good portion of his time for reading and studying. Although some people have described him as shy, he can talk up a storm and dominate conversations.*<sup>300</sup>

*"Warren and I were driving down to Glen Welby for the weekend (one day in 1979) when, as tactfully and gently as he could, he broke the news to me that Bill Ruane and Sandy Gottesman, close friends of his and investors who had bought a lot of 'Post' stock for themselves and for their clients, were going to sell tens of millions of dollars' worth of it. Ruane managed the Sequoia Fund, and Gottesman was a managing partner at the First Manhattan Company, and these groups were about to sell all or half of their 'Post' stock. Warren had pondered how best to deliver this news, and he tried sugar-coating it in every way he could. I have to admit that my immediate response was to burst into rears. ...*

<sup>298</sup> Kilpatrick, 2001, p.695 ff.

<sup>299</sup> Kilpatrick, 2001, p.128

<sup>300</sup> Kilpatrick, 2001, p.137 ff.

Warren did his desperate best to console me, explaining that Bill considered he had done so well on 'Post' stock that it added up to too much of some of his portfolios. He was keeping his own stock. ...

Warren, of course, had a totally different perspective from mine on what Bill and Sandy were doing. He viewed it as an enormous plus in the lifetime of the company, almost like the 'Times-Herald' merger. Though he knew I'd be profoundly distressed by the idea, he realised right away how much the company would benefit in future profits by their selling their stock. He tried to convince me that we should be holding a party, adding, 'Don't worry. We'll just buy what they sell. It will be good for us and they'll regret it.' Although I didn't stop worrying, we did buy in the stock at an average price of \$21.91, which Sandy and Bill had bought before two splits at an equivalent price of \$6.50.

Once, much later, Warren and I discussed women bursting into tears in business situations and I reminded him of our ride to Glen Welby. 'Well,' he said, smiling, 'we made several hundred million dollars then. The next time you burst into tears call me first.' He added, 'Look at it this way, Kay. If you hadn't bought it in, I would have burst into tears, so one of us had to cry.'<sup>301</sup>

"... Both Murphy and Buffett went by Koppel's house for lunch to assure him that they cared about the news side and 'Nightline.'<sup>302</sup>

"Just a few more advantages of joining Berkshire's extended family which also include Buffett's lobbying abilities."<sup>303</sup>

"Marsha Tate of Los Angeles ... wrote to Buffett in August 1988 that she hoped one day to be a Berkshire shareholder. In the meantime, she said, she was working five jobs.

'I was turning 40 and I was upset with myself because I didn't buy two shares of Berkshire A when I had the money. I got greedy playing options. I was on a roll. I thought maybe I could make enough money to buy four shares. However, I was wrong, the market took a turn for the worse', she said.

'I'm a teacher and I've always taught my students to go after their goals, not to be content. I dreamed of owning an A share. 'It was 2 a.m. one morning when I wrote him a letter,' she added. She explained how she had been working as a teacher for 17 years, a tutor, a

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<sup>301</sup> Kilpatrick, 2001 p.267 ff.

<sup>302</sup> Kilpatrick, 2001, p.373

<sup>303</sup> Kilpatrick, 2001, p.506

governess (who kept one child seven years), ran an import-export business and was in sales part-time for I. Magnin. 'I went away and came back and almost didn't realise Buffett had replied. I expected some big item saying Berkshire Hathaway. I almost threw it away. He invited me to the annual meeting and sent me a ticket to get into the meeting. It was the most incredible trip of my life.

Although her dream had been to buy an A share, she went ahead and bought some B shares right after the meeting. 'In March 1998, I had a dream that I was going to meet Warren Buffett. I didn't know when or how. Last August, I decided to write Warren Buffett a letter, to ask whether or not a non-shareholder could attend his annual meeting, just in case I wasn't a shareholder by May of 1999. I explained to him how hard I worked to become a shareholder. I was embarrassed to tell him that I lost money playing options!' she added."<sup>304</sup>

#### A.3.4.ii Morals

"More than 99% of the monetary proceeds and 100% of the human proceeds of his life are to be 'returned to society'.

Buffett has said: 'I want my trustees to swing for the fences on a few projects that do not have natural constituencies, but that are important to society. I tell them that if they start giving half a million to this hospital and half a million to that college, I will come back and haunt them. But if they spend a ton of money on something and it flops, God bless them.'"<sup>305</sup>

"Salomon spokesman Robert Baker, who spoke with Buffett often advertised and more. Every time I told him something he was waiting at the end of the sentence for me ... and his moral compass is due North.'

Rich. Smart. Honest? The people who know Buffett best, his children, say he's the most honest person they've ever known."<sup>306</sup>

"Even though young Warren was a math prodigy, his fascination with finance came as a surprise to Buffett's religious and frugal father, who had little interest in amassing money for its own sake. He found his son, whom he hoped would one day join the clergy, spellbound by the power of the Almighty Dollar. But young Buffett couldn't really make the leap to religious faith. ...

<sup>304</sup> Kilpatrick, 2001, p.975

<sup>305</sup> Kilpatrick, 2001, p.14

<sup>306</sup> Kilpatrick, 2001, p.30

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*Buffett has said he's an agnostic because he doubts the human mind can know whether there is a God, but says his father was very religious. As a practical matter I think my dad and I came it at about the same place in terms of what we believed behaviour should be and how society should operate.' And he says, 'In my whole life I never saw my dad or my wife ever do anything in their lives you couldn't put on the front pages of a newspaper, written by an unfriendly reporter.'*<sup>307</sup>

*"The tax return for his Buffett Foundation listed charitable contributions of nearly \$10 million in the 12 months ending June 30, 1997. Contributions included \$10,000 apiece to 15 Omaha public school teachers who received Alice Buffett Outstanding Teacher Awards, named for his late aunt. An additional \$370,000 went to the Boys' And Girls' Club of Omaha. As it has for years, the foundation gave numerous gifts to groups dedicated to population control. Recipients included a number at local Planned Parenthood groups, including those in Omaha and Lincoln. Buffett has said that the foundation will be the recipient of the bulk of his fortune after he and his wife die."*<sup>308</sup>

*"Finally, in the son's eyes, what is it that makes Warren Buffett tick?*

*'I think it stems from his basic philosophy that you ought to want to give back to society and not just be a consumer of it. That's totally consistent with what he does,' he said. 'He does want to be a success and he likes to be creative. He's extra creative and intelligent ... He has all the tools and all that's combined wit determination ... There's an inside drive. He wants to do good things. He wants respect and to be in a position to have a positive influence.'*<sup>309</sup>

*"Keough says he can't recall exactly how he met Buffett, just that they were neighbours in Omaha. 'I don't remember how we were introduced ... He was about 25 and I was about 30. 'He was exactly the same then as he is now ... What you see is what you get. He had the same values. His story really is not money. It's values. People should know about his values .... What he said at the (Berkshire) annual meeting (in 1991) in his response to a question about choosing careers says it all. He said enjoy your work and work for whom you admire.'*<sup>310</sup>

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<sup>307</sup> Kilpatrick, 2001, p.53 ff.

<sup>308</sup> Kilpatrick, 2001, p.117

<sup>309</sup> Kilpatrick, 2001, p.183

<sup>310</sup> Kilpatrick, 2001, p.306

“... ‘Warren has given the company its strategic direction. ... He has kept his focus on the regulators and the capital structure.’

*Buffett focused most of his attention on matters in Washington. ‘It’s our belief that those who misbehaved are gone. New management dealt with that very swiftly. Warren has cleaned house. I see no reason for the government to shut us down ... We are cooperating with the government in an unprecedented way. ...’*<sup>311</sup>

“*Buffett slashed bonuses, making them payable largely in stock rather than cash, reduced debt and had every Treasury auction bid cross-checked at least twice.*

*He told Salomon’s Phibro Energy unit to cut all ties with Marc Rich & Co., a major client of Phibro’s, saying Salomon wasn’t going to do business with Marc Rich, a U.S. fugitive.’*<sup>312</sup>

“‘We believe,’ Buffett said, ‘that the intense regulatory and investigative focus on Salomon has ended. We can now move forward to show that high ethical standards and meaningful profits are not only compatible objectives, but ones that can reinforce each other.’”<sup>313</sup>

“*Omaha folks are straightforward, open, friendly and businesslike, just as Buffett himself is open and very quick to respond to matters as they arise. He takes his calls. He responds as quickly as possible to mail. He does not leave people hanging for answers. There is no show, pretence or dissembling. Old-fashioned values prevail. Honesty and decency are assumed.*

*With Berkshire’s financial clout, Buffett could easily pull a lot of tricks - threaten takeovers, corner markets or create market turmoil to his advantage. But there’s none of that. Buffett does not go where he’s not wanted.*

*He once took a relatively small stake in a company and expressed interest about a larger stake to the company. A top executive told Buffett the company wanted to buy back its stock and asked him not to buy any more shares. Buffett stopped on the spot and did not buy another share.*

*Had Buffett wanted he could have bought the whole company; instead he honoured the wishes of management.’*<sup>314</sup>

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<sup>311</sup> Kilpatrick, 2001, p.541

<sup>312</sup> Kilpatrick, 2001, p.543

<sup>313</sup> Kilpatrick, 2001, p.545

<sup>314</sup> Kilpatrick, 2001, p.587 ff.

*“Buffett does not buy the idea held by many corporations that the chairman chief executive should make decisions about philanthropy. So in 1981 Buffett announced that each Berkshire shareholder could designate \$2 - raised as the years went by to \$18 a share in 1999 - of corporate donations for each share owned to the charity of the shareholder’s choice. ‘Lots of companies don’t earn or sell at what we give away.’ says Berkshire shareholder Bill Scargle.*

...

*Charitable contributions in 1999 amounted to \$17.2 million, which went to 3,850 charities. Here’s Berkshire’s unusual charity policy: ‘Each Berkshire shareholder - on a basis proportional to the number of shares of Berkshire that he owns - will be able to designate recipients of charitable contributions by our company. You’ll name the charity; Berkshire writes the check.’<sup>315</sup>*

*“He [Buffett] said his father, ‘taught me to do nothing that could not be put on the front page of a newspaper. I have never known a better human than my dad.’”<sup>316</sup>*

*“Buffett has assured shareholders that nothing will happen to his Berkshire stock. ‘Not a single share of my stock will be sold,’ he has said. Almost all his Berkshire stock is going to The Buffett Foundation.*

*‘It’s a marvellous society that lets me do what I do. Worth a damn in Bangladesh or Peru or some place. The fact that I have a lot of fun with it and can consume some of it, I think I should give it back to society. I see no reason why I should create some dynasty of wealth that can go around fanning themselves,’ ...”<sup>317</sup>*

*“Buffett’s wealth, the fruits of his lifetime of long-term investing is slated to go to The Buffett Foundation and then back to society.*

*Buffett’s foundation could easily wind up as the largest on earth dwarfing even the legacies of Rockefeller and Ford. The largest foundations in the U.S., according to ‘The New York Times’ (September 12, 1999) citing ‘The Chronicle of Philanthropy’ ...”<sup>318</sup> ... “The thrust of The Buffett Foundation’s giving currently is for planned parenthood, reducing the risk of nuclear war, and education. Currently the foundation gives away about \$11 million to \$12*

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<sup>315</sup> Kilpatrick, 2001, p.606 ff.

<sup>316</sup> Kilpatrick, 2001, p.880

<sup>317</sup> Kilpatrick, 2001, p.996

<sup>318</sup> Kilpatrick, 2001, p.1007

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*million a year with most of the money going to family - planning services, including abortions. ...*<sup>319</sup>

*“Buffett has decided not to dictate from the grave how the foundation should operate, saying that high-grade people living after him will be better judges of how best to use the money for mankind.*

*He has shied away from saying too much about the foundation, formed in 1964, but Buffett has said that most of his money will go back to society and that the conduit for building a better world is the foundation.*<sup>320</sup>

*“The idea that you get a lifetime supply of food stamps based on coming out of the right womb strikes at my idea of fairness.”*<sup>321</sup>

*“The main focus of his charity efforts is toward reproductive freedom (pro-choice). His efforts for civic and charity causes may be just beginning. After all, he is leaving his fortune to the Buffett Foundation which will give it back to society.”*<sup>322</sup>

#### A.3.4.iii People skills

*“And he needs to keep the managers of his businesses happy. Three-fourths of them are worth more than \$100 million so they are financially happy already. He just needs to keep them motivated.”*<sup>323</sup>

*“This was the second time, not the first, that Buffett rescued Salomon. ...*

*Buffett told Salomon’s managers that the firm faced a huge management job in facing fines and litigation, that he would name a new chief operating officer and that - following an emergency board meeting Sunday, August 18, 1991, he would hold a press conference. That was newsworthy because Buffett rarely holds press conferences or grants interviews.*

*The Salomon executives were so impressed with Buffett’s straightforward approach, they burst into applause. ...*

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<sup>319</sup> Kilpatrick, 2001, p.1108

<sup>320</sup> Kilpatrick, 2001, p.1010

<sup>321</sup> Kilpatrick, 2001, p.1057

<sup>322</sup> Kilpatrick, 2001, p.137

<sup>323</sup> Kilpatrick, 2001, p.11

*Buffett, already ensconced in Gutfreund's 43<sup>rd</sup> floor office with a new phone line, next went out to meet the press. He won them over in a split second by saying, 'I will attempt to answer questions in the manner of a fellow who has never met a lawyer. We'll stay as long as you wish.' ...*

*About a week later he was giving the Salomon sales force a 15-minute pep talk beamed to Salomon offices around the world. 'I don't want anyone playing close to the lines...,' he counselled. 'You can do very well hitting down the middle of the court.'*

*Later he added, 'If you lose money for the firm by bad decisions, I will be very understanding. If you lose reputation for the firm, I will be ruthless.'*

*Buffett had to form fast judgments about how best to keep clients, how to keep employee defections down, how to reassure Salomon's creditors and the government. He decided to sell some \$40 billion of Salomon's securities to finance the firm's operations, keeping it competitive at a very dangerous time.*

*The government seemed reassured by Buffett's leadership at the firm. Investors and clients breathed a sigh of relief and Salomon's stock, which had lost about one-third of its value during the ordeal, steadied, then rallied. ."<sup>324</sup>*

*"During that time, he also taught an investment course at the University of Omaha's adult education program. One time he arrived for a course and found only four students; he dismissed the class, saying he was sorry there wasn't enough interest to hold the course. Eventually the class got off the ground. 'Omaha World Herald's Robert Dorr has written about a student from that course who recalled how class members, whose average age was in the 40s, snickered slightly when they first saw young Buffett. Buffett told Dorr, 'I was skinnier then and looked like I could get into a basketball game as a high school student.'*

*The moment Buffett began speaking, the snickering stopped. 'After two minutes he had the class in his hands,' said the former student."<sup>325</sup>*

*"Buffett can give the appearance of being every inch the absentminded professor-tousled hair, rumpled clothes, a high Midwestern cackle and laugh. Once when he was out of town, Mrs. Buffett redecorated the house. The story goes that when he came home, Buffett didn't notice any change.*

*It is when he opens his mouth that people snap to attention with awe because of the crystal clarity, penetration and facile summary he can bring to a complex problem. He is a master*

<sup>324</sup> Kilpatrick, 2001, p.31 ff.

<sup>325</sup> Kilpatrick, 2001, p.68

*communicator whose verbal and written skills are unique. What he says is informative, useful, wise or funny. It's not passing chatter about what's for dinner.*

*Buffett speaks to people as if they were as intelligent as he: somehow he makes the person believe for a moment that he is with Buffett in his reasoning. The feeling is conveyed because Buffett is so articulate that most listeners actually do understand what Buffett is talking about - even if it involves complicated business concepts.”<sup>326</sup>*

*“After his appearance he met with employees and signed autographs. As the crush of people grew, GEICO officials tried to get Buffett away, but he said he was fine, adding: ‘I don't mind. I just pretend I'm signing insurance policies.’”<sup>327</sup>*

*“Warren Buffett ordered a Big Mac, fries and a Coke at a McDonald's in Hong Kong just about midnight between October 1 and 2, 1995.*

*‘He was walking back from the counter when I saw him. I had seen him before,’ said Mark Langdon of Omaha. ‘I jumped up and basically used my Omaha connection to introduce myself. He stopped and chatted and then set his tray down at my table. He looked around and said, ‘I have some friends here and I don't want to miss them.’*

*‘My brother and I had heard that Buffett had been in China with (Microsoft Chairman) Bill Gates,’ Langdon said. ‘Then Bill Gates walked up and Warren introduced Gates to me and my brother. I had to scrape my jaw off the floor.’*

*‘Buffett said to Fred and me, ‘This is Bill Gates,’ like you have to do that,’ Langdon said of the introduction.*

*Then Gates' wife, Melinda, and Gates' Father, Bill Gates, Sr., came over to the table. ‘It was crazy,’ said Langdon, then a 33-year-old application analyst with Applied Communications Inc., in Omaha, ...*

*‘The six of us sat at the table for about 20 minutes,’ Langdon said. ...*

*‘I was talking to him like any other person. It was hard to believe these were the two richest people in the world,’ Langdon said. ...*

*Buffett paid for the meals with McDonald's gift certificates and gave the Langdon brothers certificates that were left over. Buffett said, ‘They gave us these,’ without saying exactly who gave them to him, according to Langdon. After Buffett handed over the gift certificates, he cracked, ‘You don't have any frequent flier coupons, do you?’”<sup>328</sup>*

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<sup>326</sup> Kilpatrick, 2001, p.125

<sup>327</sup> Kilpatrick, 2001, p.297

<sup>328</sup> Kilpatrick, 2001, p.353 ff.

*“Buffett told ‘Night line’s’ Ted Koppel (March 2, 1999), in an interview at a Dairy Queen in Omaha: ‘It was a business that I could understand. Now, there’s all kinds of business I can’t understand and I try not to buy into those because ..., why should I expect to make money on something I can’t understand? So I’m not in any high tech businesses, for example. But I understand, you know, an ultimate hamburger or, you know, a Peanut Buster or a Dilly Bar and I can handle that. And I like the people that run it. I like the economics of the business. It’s a good business.’”<sup>329</sup>*

*“For all Buffett’s understanding of the inner workings of business, his greater understanding may be of human nature. He would certainly subscribe to John D. Rockefeller’s warning: ‘A friendship founded on business is better than a business founded on friendship.’ And Buffett knows that human nature includes: ‘Fools rush in where wise men fear to trade.’ He reads people quickly and accurately and his judgment of their abilities, motives and ambitions is almost always on the money. He can see the first class person in a flash, and the fraudulent person just as fast. ...*

*‘No less an authority than John F. Welch, CEO of General Electric Co., considers Buffett a superb judge of managerial talent. Buffett and Welch have gotten to know each other over the years as golf partners and as rivals in auto insurance and other businesses. ‘Take 20 people you know quite well but Warren has just met casually,’ Welch says. ‘If you ask Warren his opinion about them, he’ll have each one nailed. He’s a master evaluator of people, and that’s the biggest job there is in running a company.’”<sup>330</sup>*

*“Few things give Buffett more pride than knowing the names of the holders he has drawn to his unusual enterprise. The shareholders are a wide-ranging lot, everyone from yuppies all over country, investment bankers and money managers of all stripes, to corporate executives, and sports and media stars, and a number of shareholders who have known Buffett for years.”<sup>331</sup>*

*“‘Omaha World-Herald’ newsman Jim Rasmussen requested an interview with Buffett shortly before a Forbes article in October, 1993 proclaimed Berkshire’s chairman the richest person in the country. ...*

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<sup>329</sup> Kilpatrick, 2001, p.488 ff.

<sup>330</sup> Kilpatrick, 2001, p.600 ff.

<sup>331</sup> Kilpatrick, 2001, p.635

*'I met him outside Salomon's headquarters (Buffett was there for a board meeting) at the World Trade Center. I was to meet him at 5 p.m. and I was 10 minutes early because I didn't want to miss my shot at the interview,' Rasmussen said.*

*'He walked out the door at 5 p.m. and we had to be at Columbia before 6. We got into a Lincoln Town Car. ...*

*Then Buffett got out and met Carol Loomis of 'Fortune', and talked to the students for two and a half hours devoting his first remarks to the subject of integrity. ...*

*Afterwards, Buffett left with Carol Loomis, but asked Rasmussen if he needed a ride and Rasmussen said he'd get a cab back to his hotel to write his story."<sup>332</sup>*

*"I met Buffett in 1964 through Henry Brandton Kenner of the former Shearson Lehman executive.*

*One time Buffett invited Peter Kenner to accompany him on the plane to the an Kenner joined Buffett and his wife for the trip to Omaha. 'It was that first plane and it had E.T. on it from the movie,' Kenner recalled.*

*By 1990, Peter Kenner's nine-year-old son Nicholas, a fourth-generation Berkshire shareholder, was pleading to go. 'He had been asking me about going to the meeting' says Kenner, who thought it a bit odd.*

*But he said his son, who inherited 10 shares of Berkshire, explained that if this was his investment for a college education he wanted to go.*

*At last Kenner told his son he could go, but that it was a grown-up affair and he'd have to be quiet and not ask questions. But young Kenner said he wanted to ask why the Berkshire stock price had dropped from \$8,900 to \$6,700 a share. His father finally gave in. The Kenners ran into Buffett just before the meeting, and Buffett encouraged young Kenner to ask whatever question he wanted. So Nicholas, posing the first question at the Berkshire Annual Meeting in 1990, asked the ultimate question of Buffett: 'Why did Berkshire's stock go down?'*

*Buffett, feigning anger, replied, 'You're underage! Throw him out!'*

*The greatest financial mind of our time finally replied that he really did not know, that there was no good answer to that question. Young Kenner had stumped the master. ...*

*As it happened, after the meeting Buffett and the Kenners again ran into one another, and asked Nicholas Kenner if he could pose for a picture with him, a picture that ran with the 'Omaha World-Herald's' story about the annual meeting. ...*

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<sup>332</sup> Kilpatrick, 2001, p.683

*A short time later Buffett sent Kenner a copy of the photo with a letter saying to come to future meetings and ask more questions.*

*'He's a nice guy. He's very funny,' Kenner said of Buffett.*

*'I just wanted to ask him why the stock price was down. You know, if it's fallen from over \$8,000 you want to know why. I definitely want to hold it unless something absolutely amazing happens and it goes down thousands of dollars,' he added.*

*Kenner, such a hit at the annual meeting in 1990, was allowed the first question at the annual meeting in 1991, Buffett had written in the annual report that he would let young Kenner have first crack at him.*

*Kenner was ready with two questions: His first was, why did Buffett pick Coke instead of Pepsi as an investment? His second was, why, if Buffett listed Kenner's age as 11 in the Berkshire Annual Report when he was actually 9, should he trust Berkshire's financial numbers in the back of the annual report? That question sent Berkshire shareholders in to convulsions of laughter.*

*Buffett later said he planned 'a written response'. ...*

*The youngster began his questioning of Buffett by saying he owned 10 shares of Berkshire: Buffett interjected, 'I'd like you to meet my granddaughter.'*

*Buffett, calling on the help of then Coca-Cola President Don Keogh, took on Kenner's first question explaining that Coke is a superb business serving soft drinks in 170 (now almost 200) countries where consumption is increasing. Keogh said that consumption internationally was 59 servings per capita a year compared with 300 in the U.S., suggesting Coke's enormous growth potential.*

*Buffett said he drank five Cokes a day and noted that Munger drinks diet Coke 'for obvious reasons.'*

*As for young Kenner's second question about the age discrepancy, Buffett started out with 'Charlie wrote that section' and then ducked it with; 'That is a very good question. I look forward to seeing you again next year,'*

*Drawing a big laugh, Kenner said, 'I'll be back!'*

*'I know!' Buffett replied.*

*The repartee was becoming part of Berkshire lore and Buffett wrote at the end of his letter in the 1991 Annual Report: 'Nicholas will be at this year's meeting - he spurned my offer of a trip to Disney World on that day - so join us to watch a continuation of this lopsided battle of wits.'"<sup>333</sup>*

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<sup>333</sup> Kilpatrick, 2001, p.799 ff.

*“Bill Scargle, a Paine Webber executive in San Francisco, California, ... It started with a \$2,000 investment in Blue Chip in 1969 because it looked like a growth company.’ ...*

*As any investor with all his eggs in one basket, I wanted to meet in person the man who held the basket. ...*

*It lasted a few minutes. Buffett said he had about an hour if anyone would like to stick around to talk about investing. That hour changed my life. I knew at once this guy was on very smart investor. Nothing has ever changed my mind since.*

*After the meeting, I introduced myself to Buffett ...*

*At Scargle’s 60<sup>th</sup> birthday party on August 17, 1998, Scargle received a note from Buffett which said: ‘Bill, congratulations on your 60<sup>th</sup>. May you live until Berkshire (‘A’) splits.’”*<sup>334</sup>

*“Two Australian investors - Ian Darling and Mark Nelson - make the journey half way around the world each spring to Omaha to catch up on Buffett’s thinking. ...*

*We first met Buffett while watching the Omaha Royals at the baseball game in 1995. We sat down beside him in the stand, introduced ourselves, and explained that we were from Australia. He shouted with delight, ‘Hey, these guys have come all the way from Australia.’ He genuinely seemed excited by our visit. We got the distinct impression that we were the first Australians Buffett had ever met, both from his greeting and the warm letter we received from him back in Australia after the event: ‘You both are great sports to come all the way from Australia and I hope you continue to make the trip.’ With an invitation like that how could we possibly let him down? We have returned every year since.”*<sup>335</sup>

*“Warren and I were driving down to Glen Welby for the weekend (one day in 1979) when, as tactfully and gently as he could, he broke the news to me that Bill Ruane and Sandy Gottesman, close friends of his and investors who had bought a lot of ‘Post’ stock for themselves and for their clients, were going to sell tens of millions of dollars’ worth of it. Ruane managed the Sequoia Fund, and Gottesman was a managing partner at the First Manhattan Company, and these groups were about to sell all or half of their ‘Post’ stock.*

*Warren had pondered how best to deliver this news, and he tried sugar-coating it in every way he could. I have to admit that my immediate response was to burst into rears. ...*

*Warren did his desperate best to console me, explaining that Bill considered he had done so well on ‘Post’ stock that it added up to too much of some of his portfolios. He was keeping his own stock. ...*

<sup>334</sup> Kilpatrick, 2001, p.673 ff.

<sup>335</sup> Kilpatrick, 2001, p.701

Warren, of course, had a totally different perspective from mine on what Bill and Sandy were doing. He viewed it as an enormous plus in the lifetime of the company, almost like the 'Times-Herald' merger. Though he knew I'd be profoundly distressed by the idea, he realised right away how much the company would benefit in future profits by their selling their stock. He tried to convince me that we should be holding a party, adding, 'Don't worry. We'll just buy what they sell. It will be good for us and they'll regret it.' Although I didn't stop worrying, we did buy in the stock at an average price of \$21.91, which Sandy and Bill had bought before two splits at an equivalent price of \$6.50.

Once, much later, Warren and I discussed women bursting into tears in business situations and I reminded him of our ride to Glen Welby. 'Well,' he said, smiling, 'we made several hundred million dollars then. The next time you burst into tears call me first.' He added, 'Look at it this way, Kay. If you hadn't bought it in, I would have burst into tears, so one of us had to cry.'"<sup>336</sup>

#### A.3.4.iv Loyalty

"She said over the years she's written Buffett on occasion about questions arising house sales. 'He's always writing back in three days. I try not to write much. He has a prodigious memory and he's very loyal to old friends.'"<sup>337</sup>

"... But there was still a problem. There was an FCC 'cross-ownership' rule banning a company from owning a television station and a newspaper in the same town. Buffett told Murphy he didn't want to sell the Buffalo News which meant Cap Cities had to sell a television station in Buffalo. In the Goldenson book, Buffett said he told Murphy he was committed to the Buffalo News:

'I promised the people there that I would never sell it. I told them, when they wrote my obituary it would say, 'He owns the Buffalo News.'"<sup>338</sup>

"... Buffett was once asked how he was able to inspire such loyalty in such a range of business managers and he joked that he tended to have trouble with them in their 90s."<sup>339</sup>

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<sup>336</sup> Kilpatrick, 2001 p.267 ff.

<sup>337</sup> Kilpatrick, 2001, p.47

<sup>338</sup> Kilpatrick, 2001, p.370 ff.

<sup>339</sup> Kilpatrick, 2001, p.415

*“Buffett was in Washington one day in 1985 when an urgent call came from his office to get in touch with his friend, Cap Cities Communications Chairman Tom Murphy. Murphy said he needed advice about financing a \$3.5 billion purchase of giant American Broadcasting Companies, Inc. At the time, the Cap Cities acquisition of ABC-TV, announced March 18, 1985, was the largest media purchase in history. ...*

*Neither Murphy nor Buffett at first thought of Buffett being personally involved, but the Wizard of Omaha quickly became a key figure in the acquisition. His role in the huge business combination probably helped Wall Street give its nod to the deal, as the stock prices of both companies shot up. ...*

*The call from Murphy came because he and Buffett had long been friends. Buffett has always had high regard for Murphy, whom he calls ‘Murph’ and of whom he has said, ‘I think he is the top manager in the U.S.’ ... Murphy has returned the compliment and has said of Buffett, ‘If I were around him all the time, I’d have a huge inferiority complex...He’s one of the greatest friends. He will try and do anything he can to help you. Without him, I wouldn’t have been able to buy ABC.’”<sup>340</sup>*

A friend helping him out:

*“... Saudi Arabian Prince Alwaleed Bin Talal wrote Forbes (January 24, 2000) ... ‘Although Coke and Gillette may be considered part of the ‘old economy’ that ‘old’ system is not going to suddenly evaporate. I may not be in agreement with Mr. Buffett’s avoidance of tech investments, but I strongly believe in his decades of philosophy and strategies that have acted as a beacon for other investors.’”*

#### A.3.4.v Trust, Reliability and Integrity

*“On the question of ethics and integrity, there is no question.”<sup>341</sup>*

Others placing trust in him:

*“It was the bond trading scandal at Salomon - the giant securities firm in which Buffett was holding a \$700 million investment - that finally thrust him into the limelight.*

*In short order authorities wanted 12 sets of fingerprints from Buffett to meet a variety of securities business rules.*

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<sup>340</sup> Kilpatrick, 2001, p.368 ff.

<sup>341</sup> Kilpatrick, 2001, p.12

*'There was also a rule that because I was an officer of a securities take the Series 7 exam (for stockbrokers). I kept delaying it until I left because I wasn't sure I could pass it,' Buffett once said.*

*The scandal at Salomon, caused by illegal trading activities and failure to report them, forced the firm to turn to Buffett. It had no other choice. Buffett was the one person the firm, its clients, the U.S. Government, regulators, investigators and investors all around the world could trust to set Salomon straight. And Buffett already was sitting on the Salomon board.*<sup>342</sup>

And:

*"This was the second time, not the first, that Buffett rescued Salomon.*

*In 1987 when corporate raider Revlon Chairman Ronald Perelman - backed with financing from junk bond king Michael Milken - was threatening a takeover of Salomon, Buffett quickly stepped in with \$700 million in cash to halt the Perelman-Milken takeover. ...*

*As he prepared to take Salomon's top position, amidst client defections, Buffett met immediately with the managing directors and told them point - blank that Salomon's reputation was on the line. Staying just within the bounds of the rules, Buffett warned, would NOT be acceptable - Salomon's very future depended upon the firm's reputation. No reputation. No Salomon. Indeed, no jobs.*

*Buffett told Salomon's managers that the firm faced a huge management job in facing fines and litigation, that he would name a new chief operating officer and that - following an emergency board meeting Sunday, August 18, 1991, he would hold a press conference. That was newsworthy because Buffett rarely holds press conferences or grants interviews.*

*The Salomon executives were so impressed with Buffett's straightforward approach, they burst into applause.*

*Buffett began preparations for Sunday's dramatic board meeting where he accepted the resignations of Salomon's top executives: John Gutfreund, the chairman once described as 'King of Wall Street'; Thomas Strauss, president; and John Meriwether, Salomon Brothers vice chairman - key men who admitted knowing of the violations but who failed to report them.*

*It would be only hours before the names of the top managers implicated in the scandal were removed from the glass encased directory on the main floor of the headquarters building. One new name was inserted: Warren E. Buffett.*

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<sup>342</sup> Kilpatrick, 2001, p.30

*In combating the scandal, Buffett also fired two men in the bond trading department and later would fire Salomon's law firm, name a new chief operating officer and put into place tighter internal controls.*

*In the midst of this chaos, Buffett convinced U.S. Treasury Secretary Nicholas Brady to reverse a major portion of a potentially crippling, five-hour-old ban on Salomon's highly profitable government securities trading.*

*Buffett, already ensconced in Gutfreund's 43<sup>rd</sup> floor office with a new phone line, next went out to meet the press. He won them over in a split second by saying, 'I will attempt to answer questions in the manner of a fellow who has never met a lawyer. We'll stay as long as you wish.'*

*In the next three hours he took a tell-all approach, saying, 'It looks to me, like in the case of the two people we fired, there were things done you and I would characterise as a coverup.'*

...

*The next day Buffett went to Washington to meet with regulators and to continue his fast-paced mission to save Salomon.*

*About a week later he was giving the Salomon sales force a 15-minute pep talk beamed to Salomon offices around the world. 'I don't want anyone playing close to the lines..., ' he counselled. 'You can do very well hitting down the middle of the court.'*

*Later he added, 'If you lose money for the firm by bad decisions, I will be very understanding. If you lose reputation for the firm, I will be ruthless.'*

*Buffett had to form fast judgments about how best to keep clients, how to keep employee defections down, how to reassure Salomon's creditors and the government. He decided to sell some \$40 billion of Salomon's securities to finance the firm's operations, keeping it competitive at a very dangerous time.*

*The government seemed reassured by Buffett's leadership at the firm. Investors and clients breathed a sigh of relief and Salomon's stock, which had lost about one-third of its value during the ordeal, steadied, then rallied.*

*For Buffett, who far prefers his quiet existence in Omaha, it was an action-packed time of racing from Omaha to New York and Washington and living out of a suitcase."<sup>343</sup>*

And:

*"In late 1958 O'Connor sold about \$16,000 of his IBM stock and some other small holdings, and on January 1, 1959, invested \$18,600 in the Buffett Partnership.*

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<sup>343</sup> Kilpatrick, 2001, p.31 ff.

*Over the years he added to his holdings, occasionally selling some holdings for family needs. 'My wife, Jean, questioned my judgment' about putting so much with Buffett, but O'Connor told her that if she knew what he knew about Buffett, she'd understand.*

*O'Connor's faith paid off and he became one of Buffett's many millionaires in Omaha. Good thing - William and Jean O'Connor have 10 children.”<sup>344</sup>*

And:

*“In those days, he was approached by family members who wanted investment advice. As a result he founded the Buffett Partnership in 1956 telling investors, 'I'll run it like I run my own money, and I'll take part of the losses and part of the profits. And I won't tell you what I'm doing.*

*Buffett managed the partnership while the other members were limited partners who made none of the decisions. Buffett's investors always have been in the dark about what he's up to until an earnings report is filed.*

*He pooled \$105,100 from friends and relatives to form his partnership. Other than going around town trying to solicit money, mainly from doctors, Buffett rang up only a few expenses. The price of the rent was right. Buffett always would hold dear his low-cost operating habits.”<sup>345</sup>*

And:

*“One day in the summer of 1956 Homer Dodge, a physics professor and president of Norwich University in Vermont who heard of the wunderkind as a result of being a friend of Ben Graham's, arrived in Omaha after a canoe trip, sought out Buffett and became the first outside partner.*

*The canoe trip was apparently incidental. Dodge had driven 1,500 miles alone in hopes of persuading 25-year-old Buffett to manage his family's savings.”<sup>346</sup>*

And:

*“In the early to mid-1960s a fellow named Laurence Tisch, later to become chairman of Loews and CBS, sent Buffett a check for \$300,000 and a note saying, 'Include me in.’”<sup>347</sup>*

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<sup>344</sup> Kilpatrick, 2001, p.76

<sup>345</sup> Kilpatrick, 2001, p.76 ff.

<sup>346</sup> Kilpatrick, 2001, p.77

<sup>347</sup> Kilpatrick, 2001, p.79

And:

*“A few years later, Buffett was lining up investors for his own limited partnerships. One day Soener got a bonus check for \$10,000 from his firm, Cruttendon & Co. Buffett stopped by the Cruttendon office that day. ‘I said,’ ‘Look what I got from Cruttendon,’’ Soener recalled.*

*‘He said, ‘What are you going to do with it?’*

*Soener, who could have paid off his mortgage with the \$10,000, decided to put it with Buffett instead. He had become familiar with Buffett’s abilities when they taught an investment course together at Omaha University.”<sup>348</sup>*

And:

*“As the start of an era of better feelings, Buffett pulled out a stuffed bee, playfully putting it in Mrs.B’s hair and mugging for photographers. Shortly afterwards, she said, ‘He’s an honest person. He’s never stuck-up. He’s straight.’”<sup>349</sup>*

*“Buffett was in Washington one day in 1985 when an urgent call came from his office to get in touch with his friend, Cap Cities Communications Chairman Tom Murphy. Murphy said he needed advice about financing a \$3.5 billion purchase of giant American Broadcasting Companies, Inc. At the time, the Cap Cities acquisition of ABC-TV, announced March 18, 1985, was the largest media purchase in history. ...*

*Neither Murphy nor Buffett at first thought of Buffett being personally involved, but the Wizard of Omaha quickly became a key figure in the acquisition. His role in the huge business combination probably helped Wall Street give its nod to the deal, as the stock prices of both companies shot up. ...*

*The call from Murphy came because he and Buffett had long been friends. Buffett has always had high regard for Murphy, whom he calls ‘Murph’ and of whom he has said, ‘I think he is the top manager in the U.S.’ ... Murphy has returned the compliment and has said of Buffett, ‘If I were around him all the time, I’d have a huge inferiority complex...He’s one of the greatest friends. He will try and do anything he can to help you. Without him, I wouldn’t have been able to buy ABC.’ ...*

*Buffett told about getting a call from Murphy who said ‘You’re not going to believe this. I’ve just bought ABC. You’ve got to come and tell me how I’m going to pay for it.’ Buffett did just*

<sup>348</sup> Kilpatrick, 2001, p.113 ff.

<sup>349</sup> Kilpatrick, 2001, p.419

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*that, telling Murphy he needed ‘a nine-hundred-pound gorilla’ investor to keep raiders at bay, and then kicked in \$517 million.”<sup>350</sup>*

And: He built up such a good reputation that others, who have not even met him personally, place great trust in his investing abilities.

*“One day in the summer of 1956 Homer Dodge, a physics professor and president of Norwich University in Vermont who heard of the wunderkind as a result of being a friend of Ben Graham’s, arrived in Omaha after a canoe trip, sought out Buffett and became the first outside partner.*

*The canoe trip was apparently incidental. Dodge had driven 1,500 miles alone in hopes of persuading 25-year-old Buffett to manage his family’s savings.”<sup>351</sup>*

His family were confident of his abilities. This, in turn is important for his own self-confidence:

*“Even when Buffett was starting his partnership in his bedroom, it did not create a stir in the family. ‘We took it for granted he knew what he was doing,’ Mrs. Bryant said.”<sup>352</sup>*

And:

*“Whatever he’s doing, it’s with self-confidence. ‘I’ve never had any self-doubt. I have never been discouraged,’ he says.”<sup>353</sup>*

And:

*“... Buffett says: ‘The first investors just believed in me. The ones who had faith stayed on - you couldn’t get my Aunt Katie to sell if you came at her with a crowbar.’”<sup>354</sup>*

And:

*“Still, Buffett has great trust in his thinking. People often write him with their investment ideas and he has replied, ‘With my idea and your money, we’ll do OK.’”<sup>355</sup>*

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<sup>350</sup> Kilpatrick, 2001, p.368 ff.

<sup>351</sup> Kilpatrick, 2001, p.77

<sup>352</sup> Kilpatrick, 2001, p.60

<sup>353</sup> Kilpatrick, 2001, p.139

<sup>354</sup> Kilpatrick, 2001, p.88

<sup>355</sup> Kilpatrick, 2001, p.604

*“Dorothy Davis, a wealthy neighbour, invited Buffett over to her apartment one evening in 1957, according to ‘Forbes’ (October 12, 1998). ‘I’ve heard you manage money,’ she said. Buffett recalls, ‘She questioned me very closely for two hours about my philosophy of investing. But her husband, Dr. Davis, didn’t say a word. He appeared not even to be listening. Suddenly, Dr. Davis announced ‘We’re giving you \$100,000.’ ‘How come?’ I asked. ‘Because you remind me of Charlie Munger.’ ‘Who’s Charles Munger?’ Buffett didn’t even know Munger yet. Two years later Dr. Davis introduced the two. ...*

*Among the early partners was Charles Heider who today is general partner of Heider-Weitz Partners in Omaha. Heider says: ‘I told my family. ‘Look Warren is going to think about how to invest our money seven days a week.’”*

*Another was investor Fred Stanback who met and was impressed with Buffett at Columbia. Stanback is known for his long term holdings in Berkshire, Food Lion and other stocks.”<sup>356</sup>*

*“At one point in his career, when Buffett was testifying before Congress about the Salomon scandal, he was introduced to the House Energy and Finance Subcommittee by U.S. Representative Peter Hoagland (D.-Nebraska) who said it was his pleasure to introduce one of his state’s most illustrious and inspiring citizens.*

*Hoagland attributed Buffett’s success ‘to growing up in Omaha, a beginning that instilled in him the old-fashioned values of integrity, discipline and character.’”<sup>357</sup>*

He seems to be very honest:

*“Knapp said even though he was in his 30s and Buffett in his 20s when they were young fellows trying to corner the stamp market, ‘he was definitely ahead of everyone. His grasp and concentration were so incredible. And his integrity was 100%. If it was a matter of 10 cents, he’d report it. He wanted everything right straight in line.’”<sup>358</sup>*

And:

*“‘He was in his grubbies having a malt and chips or something, and I realised there was some problem in paying the bill,’ recalls Virginia Lee Pratt, a retired schoolteacher in Omaha who was a longtime bridge playing friend of Buffett’s mother. ‘I said, ‘Warren, could I help?’ And he said, ‘This is pretty embarrassing.’”*

<sup>356</sup> Kilpatrick, 2001, p.89

<sup>357</sup> Kilpatrick, 2001, p.87

<sup>358</sup> Kilpatrick, 2001, p.120

*The bill at Goodrich Dairy was \$3.49 and Buffett was unable to pay, he said, because he had given his children his small bills and had only a \$100 bill on him that the little dairy shop couldn't change. Pratt stepped in and paid the bill.*

*'He sent a check the next day saying that since he had established credit could he up his line of credit to five dollars,' she said.*

*She said she was so honoured to have a check signed by Buffett that she didn't cash it and wrote him that he should check his books because he'd be off by the amount of the bill. (No one would cash Picasso's checks either.)*

*'At our next bridge game, his mother brought me \$3.50 in cash,' Pratt said.*

*Buffett is conscientious about paying his bills, but he also wants full payment when he's on the receiving end, even to the point of taking advantage of discount coupons.”<sup>359</sup>*

*“For all his folksy ways, it's the high and mighty who seek his advice. Back in 1984 when the Getty family was embroiled in complex merger talks, Ann Getty flew to Omaha to seek Buffett's counsel.”<sup>360</sup>*

*“Peter told Linda Grant of 'The Los Angeles Times' ... 'My dad says the money is not important to him, but it is. Not because he wants to spend it, but because it makes him a winner. My dad casts a big shadow. I remember sitting at the dinner table with him, and there was nothing you could tell him that he didn't already know. But I always got the impression he would support me in whatever I chose.’”<sup>361</sup>*

*“Salomon was under pressure from a takeover threat from Revlon Chairman Ronald Perelman in 1987. Perelman was trying to buy a 14% stake in Salomon stock held by Mineral Resources, a Bermuda-based company controlled by the South Africa Oppenheimer family who decided to sell its stake. Buffett got his investment and Perelman backed off. The Mineral Resource stake was purchased by Salomon.*

*For this and his subsequent preferred stakes in Gillette, US Airways and Champion International, where there was a real or a perceived takeover threat, Buffett became known as a 'White Knight' stepping in to save the takeover targets.”<sup>362</sup>*

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<sup>359</sup> Kilpatrick, 2001, p.128 ff.

<sup>360</sup> Kilpatrick, 2001, p.130

<sup>361</sup> Kilpatrick, 2001, p.174 ff.

<sup>362</sup> Kilpatrick, 2001, p.535

*“I believe Salomon would have gone under without Warren Buffett,’ said Steve Forbes, head of the Forbes publishing empire and a Republican presidential candidate in 1996 and 2000. ‘There is no question he saved it.’*

*That view is supported by someone in the midst of the crisis, Don Howard, Salomon’s chief financial officer who oversaw the sale of \$50 billion in assets and a total balance sheet restructuring. ...*

*‘Warren’s reputation gave the market confidence,’ said Howard, quickly, adding ‘He’s incisive, he knows what he wants, he understands very quickly, he goes to the essence of the problem very quickly, he goes to the essence of the problem very quickly.’ ...*

*Buffett’s impeccable reputation helped smooth potentially acrimonious talks with the Treasury Department, the SEC and the Justice Department.*

*Taking a more conservative fiscal stance, Buffett reduced Salomon’s balance sheet by selling about \$50 billion in assets, lowering Salomon’s exposure to huge borrowings. His message was that ultra-easy access to funding often leads to undisciplined decision-making. ...*

*Slashing bonuses, Buffett set up fairer compensation standards. He restructured Salomon’s stock and bond trading units, cutting back on stock trading and moving the firm back to its bond-trading roots, the source of its prominence.*

*He assuaged clients, employees, shareholders and the government itself, asking all to look for a new Salomon, setting the highest standards in its business dealings. Here he teaches us that good profits and good behaviour go hand in hand. ...*

*Buffett kept his pledge about staying on with the firm until the investigations were completed. Better yet, he kept his pledge about turning the firm around and rebuilding its reputation.*

*‘We have managed to preserve a firm with a proud history and promising future,’ he wrote Salomon shareholders. ‘You have our pledge that we will conduct our business in the future so as to merit your continued trust.’”<sup>363</sup>*

*“Buffett believes you shouldn’t cut corners. You should do things simply, ethically, and without a lot of loud talk. You should do things in a way that would not be embarrassing if you appeared on page one of a newspaper. You should try to be a good guy.*

*‘He demonstrated that an honest person could come in and clean up Wall Street’s ways. He showed that honesty, hard work, good relationships, and openness are good - that honesty works,’ George Morgan said.”<sup>364</sup>*

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<sup>363</sup> Kilpatrick, 2001, p.545 ff.

<sup>364</sup> Kilpatrick, 2001, p.548

While being honest himself he also expects the same from others:

*“... Hayes said if there was something amiss, it was best to tell Buffett immediately and not let any problem fester. Once, Hayes said, word leaked about what Buffett was buying, and Hayes said he told Buffett about it right away. He wound up trading for Buffett for years.*

*But other brokers who did not report problems quickly to Buffett were not used again. ‘He’s dropped brokers,’ Hayes said.”<sup>365</sup>*

#### A.3.4.vi Others

*“Each year Buffet hosts a day-long Golf Day for the benefit of Omaha charities, including the Rose Blumkin Performing Arts Centre where his daughter Susan heads the foundation. ...*

*The event, a mini-Warren’s World, in 1993 raised \$175,000, in 1994 \$900,000 and in 1995 \$350,000 to help pay the centre’s operating expenses. Buffett personally matched the 1994 and 1995 contributions.”<sup>366</sup>*

#### A.3.5 Others

The following quote is an example showing the importance of a common base:

*“Sisco immediately got in touch with then Gillette Chairman Colman Mockler and a few days later Mockler, returning from a business trip to Mexico, landed in Omaha. Buffett picked him up and drove him to the Omaha Press Club for a lunch of hamburgers, Cokes and an ice cream dessert. ‘We hit it off, a couple of Midwestern boys. I liked him, the chemistry was good.’”<sup>367</sup>*

He is described as a rather content person:

*“Buffett, who is normally self-effacing and leans to an unflamboyant, low-key lifestyle most of the time, describes his principles a ‘simple, old and few.’*

*He started early from scratch but was buoyed by a family of substance. In addition to starting early, he plans to stay late at his career. After all, it’s the compounding of money in the later years that really counts if you want to amass wealth. ...*

<sup>365</sup> Kilpatrick, 2001, p.597

<sup>366</sup> Kilpatrick, 2001, p.157

<sup>367</sup> Kilpatrick, 2001, p.552

*He bought a three-story Dutch colonial home in 1958 and has never moved. Homes in this neighbourhood today go for about \$350,000. That's a lousy return, percentage-wise, compared to the runup in Berkshire's stock price. ...*

*Buffett always has lived beneath his means.*

*He insists on rock-bottom operating costs, plenty of cash on hand and 'little or no debt.'*

*For example, it was not until he was in his late 20s and well on his way to being a millionaire that he splurged on a \$295 IBM typewriter for the partnership.*

*'He was always saying he didn't need it.' recalls William O'Connor, a vice president of Mutual of Omaha who had been an IBM salesman for 30 years. In his early days, O'Connor made the strenuous sale to Buffett. 'It was an IBM Standard Model electric typewriter. He bought the standard model rather than the more costly executive model.'*

*Always tight-fisted, Buffett occasionally has dipped into his fortune for such endeavours as adding rooms to his house, including a handball court. ...*

*Buffett is a beacon of simplicity and sanity - and probably a genius. Rationality and common sense, actually uncommon sense, are his guiding lights. For example, there are many reasons he bought Coca-Cola stock, but a main one is that human beings, worldwide, get thirsty, and history shows that once exposed to Coke, people continue to drink it.*<sup>368</sup>

And:

*"... Despite his private ways, Buffett became vastly famous to an ever growing cadre of investors. He remained largely unrecognized by the rest of the world because of his down-home lifestyle and avoidance of interviews.*

*It was the bond trading scandal at Salomon - the giant securities firm in which Buffett was holding a \$700 million investment - that finally thrust him in to the limelight. ..."*<sup>369</sup>

And:

*"... Near an area where Buffett stashes his Cherry Coke supply is a sign: 'Coca-Cola Sold Here Ice Cold.'*

*Buffett buys his own and brings them from his home to the office when he runs low.*

*There are no signs, no logos, nothing really to indicate anything about Berkshire. Even Berkshire's insurance business in Omaha is in a nondescript building not far from Kiewit Plaza, which modestly carries a small sign saying National Indemnity Co. ...*

<sup>368</sup> Kilpatrick, 2001, p.10 ff.

<sup>369</sup> Kilpatrick, 2001, p.29 ff.

*But the heart of Berkshire lies in Buffett's 325-square-foot office at Kiewit Plaza. It is here that Buffett reads and works the phone, staying in touch with his managers, friends and brokers and responding, usually with short, witty notes, to wave after wave of mail. He is a fanatic about the mail, reading virtually every piece that comes to him. He sometimes grabs up the mail even before assistants can get it to him. When Buffett is out of town, Mrs. Bosanek overnights him the day's new wave of mail. ...*

*Buffett's aide told Fairchild, 'Buffett sees less than one out of every 1,000 people who write him requesting an audience.'*

*With few visitors, Buffett hunkers down over his work, often snacking at his desk. The storeroom is filled with staples of Buffett's phone side lunches - Hawaiian potato chips, Cherry Cokes and See's candy.*

*Buffett sticks largely to his favourite diet of hamburgers, chips, and Cokes for lunch and rare steaks and a double order of hash browns for dinner. He likes to snack on Planters peanuts and Haagen-Dazs strawberry ice cream.*

*Then it's back to his reading and phoning. It is all as simple as simple can be.*

*In Berkshire's 1996 Annual Report, Buffett wrote: 'Our after-tax, headquarter's expense amounts to less than two basis points (1/50<sup>th</sup> of 1 %) measured against our net worth. Even so, Charlie used to think the expense percentage outrageously high, blaming it on my use of Berkshire's corporate Jet, 'The Indefensible' ...*

*Buffett said at the Berkshire Annual Meeting in 1998: 'Our after-tax cost of running the operation has gotten down to a half a basis point of capital. In contrast, many mutual funds are at 125 basis points. That means they have 250 times the overhead ratio - overhead relative to capitalization - that we do.'"<sup>370</sup>*

He donates money whereby the recipients can dispose of the money as they wish:

*"... Alice Buffett [his aunt], who never married and was a revered schoolteacher for years at both Benson High School and Central High School in Omaha. Warren Buffett, through his Buffett Foundation, gives an award of \$10,000 each to 15 teachers every year in her honour. The money has no strings attached. As Buffett told NBC News Anchor Tom Brokaw for a segment about education which aired April 12, 1994, the teacher can blow it all in Las Vegas."<sup>371</sup>*

<sup>370</sup> Kilpatrick, 2001, p.858 ff.

<sup>371</sup> Kilpatrick, 2001, p.36

The stock market has been his passion since his early childhood:

*“When Buffett was eight years old, he began reading books about the stock market that his father left around the house. He has said he became interested in stocks when he was 6 or 7. ‘And I’ve always been upset that I didn’t start earlier.’”*<sup>372</sup>

And:

*“He once told Forbes (November 1, 1969), I’d been interested in the stock market from the time I was 11, when I marked the board here at Harris Upham where my father was a broker. I ran the gamut, stock tips, the Magee charting stuff everything. Then, I picked up Graham’s Security Analysis. Reading it was like seeing the light.’*

*Harris Upham was in the same building as his father’s firm, Buffett-Falk & Co.”*<sup>373</sup>

*“... Wharton School of Business at the University of Pennsylvania. There he was president of the Young Republicans’ Club and found time to make arrangements to rent an elephant to ride in a Republican victory parade, but Truman upset Dewey and the plans were cancelled. At the University of Pennsylvania, Buffett learned to play bridge.”*<sup>374</sup>

His interest besides business is music (and bridge):

*“In the mid 1970s, after her children were grown, Mrs. Buffett, always interested in music, pursued her passion in earnest, singing blues and jazz. Music had long been a small part of Buffett’s life. At age 11, he sang ‘America the Beautiful’ with his sisters as part of a radio campaign for his father’s first successful race for Congress.*

*The singing took place in the living room of the Buffett home at the corner of 53<sup>rd</sup> and Lake Streets.*

*And music may have helped Buffett in winning his wife’s hand.*

*During their college days, Buffett won Susie’s attention by playing the ukulele with her father, a mandolin player.*

*‘It was obvious I was not number 1 with her. But he (Susan’s father) became very pro-me. It was two against one,’”*<sup>375</sup>

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<sup>372</sup> Kilpatrick, 2001, p.56

<sup>373</sup> Kilpatrick, 2001, p.57

<sup>374</sup> Kilpatrick, 2001, p.62 ff.

<sup>375</sup> Kilpatrick, 2001, p.71 ff.

Buffett asked of his father not to be included in the will, since he did not need to inherit from him. Rather he wanted his mother and sisters to inherit everything:

*“Howard Buffett’s instructions were, ‘Upon the death of my wife and myself the Trustee shall divide the trust into as many equal shares as there are then living daughters of mine and deceased daughters of mine who have left issue then surviving.’ ... I make no further provision for my son, Warren, not out of any lack of love for him but because he has a substantial estate in his own right and for the further reason that he has advised me that he does not desire the same and has requested that I not make any further provision for him.”*<sup>376</sup>

He has a good sense of humour, e.g.:

*“Linda Grant described his eating habits this way: ‘He orders Cherry Coke for his aperitif and consumes steaks and thick, juicy hamburgers with no regard for the current cholesterol phobia. Heavily salting his T-bone one recent evening at Gorat’s steakhouse, his favourite Omaha hangout, Buffett said, ‘You know how our life span depends on how long your parents live? Well, I watch my mother’s exercise and diet very carefully. She has 40,000 miles on her bike.’ Chuckling, he dives into sides of hash browns and spaghetti.”*<sup>377</sup>

And:

*“Harvey Lipsman of Omaha recalls that his son, Rocky, used to visit the Buffett home to see Buffett’s son, Howard. Their talk was often about girls, not money. Later in life Rocky - realising Warren Buffett’s success - got him to sign a book. Warren Buffett wrote: ‘Rocky, you should have talked to me instead of Howie.’”*<sup>378</sup>

And:

*“Later at a party held in Phoenix, Arizona, to celebrate the merger, Buffett brought hundreds of Cap Cities and Disney executives to their feet when he and his wife appeared on stage in full costume - as Mickey and Minnie Mouse.”*<sup>379</sup>

*“From the beginning, common sense is the trait that has most characterised Buffett’s body of work. ...*

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<sup>376</sup> Kilpatrick, 2001, p.85

<sup>377</sup> Kilpatrick, 2001, p.143 ff.

<sup>378</sup> Kilpatrick, 2001, p.146

<sup>379</sup> Kilpatrick, 2001, p.365

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*Common sense may be the most important factor helping Buffett to make more money in the stock market than anyone; he is the only person on the Forbes 400 richest Americans list who got there entirely by investing.*

*‘One piece of advice that I got at Columbia from Ben Graham that I’ve never forgotten: You’re neither right nor wrong because other people agree with you. You’re right because your facts are right and your reasoning is right. That’s the only thing that makes you right,’ Buffett said at the Berkshire Annual Meeting in 1991.”<sup>380</sup>*

And:

*“In the world of business, Buffett sticks to what he knows and what he can do. He does not try to do what he cannot. He knows he understands media, financial and consumer product companies and has concentrated his assets particularly in those areas over the years.”<sup>381</sup>*

*“In 1990, Berkshire invested \$25 million in the non-profit rational Equity Fund to help finance low-income housing. And 1991, it invested \$20 million in low-income housing efforts, split evenly between the National Equity Fund and the Enterprise Fund. By 1994, Berkshire had invested more than \$80 million in low-income housing efforts, including small amounts in the Equity Fund of Nebraska. The money went toward creating low-income housing in several cities, including Houston, Detroit, Chicago and Buffett’s hometown of Omaha.*

*‘I look at it as an investment with pro-social aspects,’ he said at a press conference in 1991. ‘I don’t view it in a philanthropic context.’*

*The investment that Buffett termed ‘financially and socially responsible’ should earn 15% to 20% a year for over a decade in the form of tax credits created through the federal Low-Income Housing Tax Credit Program, part of the tax law revision.*

*In its first four years the fund raised \$620 million to build more than 14,000 affordable housing units in 62 cities. Buffett’s investment is believed to be the largest made in the fund. He made the investment in part to encourage other firms to make such investments. Salomon also has pledged a similar \$10 million investment in the program and American Express has made a small investment.*

*Berkshire’s investment was made through its ‘World Book’ subsidiary, whose encyclopaedias, Buffett said are ‘in the homes of millions of Americans’ in all income groups. Of the law providing for the tax credit, Buffett said, ‘It seems to me to be a fine marriage between the corporate community and the local community development organizations. The marriage*

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<sup>380</sup> Kilpatrick, 2001, p.583

<sup>381</sup> Kilpatrick, 2001, p.584

*should provide affordable housing for low-income groups.’ The tax credit was assured when President Bush signed the new housing bill into law at the White House on November 28, 1990.*

*Before the signing Bush and Buffett had a private chat. The details were not disclosed.*

*We may never get them, but the discussion was about business, not politics. The President of the United States, George Herbert Walker Bush, peppered Buffett with question about the economy.’<sup>382</sup>*

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<sup>382</sup> Kilpatrick, 2001, p.803 ff.

## Appendix 4. ALAN GREENSPAN (\*1926)



{Source: [http://news.bbc.co.uk/1/hi/business/business\\_basics/178569.stm](http://news.bbc.co.uk/1/hi/business/business_basics/178569.stm) }

This book focuses on Greenspan's time at the Federal Reserve. Hence, there is not much reference to his non-work related network. However, his networking skills and activities do become apparent in this book and therefore can be used for means of research.

### A.4.1 Brief description

Alan Greenspan, the chairman of the Federal Reserve Bank is "... often dubbed the second most powerful man in America"<sup>383</sup> and "... the man most feared by financial markets"<sup>384</sup>.

"A mere word from Mr Greenspan can cause the stock market and the dollar to rise and fall His decisions on US interest rates are crucial to maintaining the health of the US and the world economy."<sup>385</sup>

"Because almost everything he says can affect the lives of shoppers and investors alike, Greenspan selects his words and actions with great discretion."<sup>386</sup> ... "He is also famous for his ability to keep the markets and the politicians guessing. He once famously said 'If I seem unduly clear to you, you must have misunderstood what I said.'"<sup>387</sup>

He was born in 1926 in New York city. When he was a small child his parents got divorced and consequently he moved with his mother to the Washington Heights in Manhattan to live with his grandparents.

His mother worked as a furniture retailer and his father was a self-educated stock analyst.

<sup>383</sup> <http://abcnews.go.com/reference/bios/greenspan.html>

<sup>384</sup> <http://abcnews.go.com/reference/bios/greenspan.html>

<sup>385</sup> [http://news.bbc.co.uk/1/hi/business/business\\_basics/178569.stm](http://news.bbc.co.uk/1/hi/business/business_basics/178569.stm)

<sup>386</sup> <http://abcnews.go.com/reference/bios/greenspan.html>

<sup>387</sup> [http://news.bbc.co.uk/1/hi/business/business\\_basics/178569.stm](http://news.bbc.co.uk/1/hi/business/business_basics/178569.stm)

He soon discovered his passion for music and numbers. His interest lie specifically in statistics and probability calculations. After high school he decided to study music, but dropped out after two years to join a big band as a professional clarinet player. However, he soon realised that, despite being a skilled musician, he lacked the innate talent that is needed in order to succeed in that business.

While his musician colleagues would socialise and party after work, he preferred to read economic literature. Hence, after leaving the big band after 2 years, he decided to study economics at the New York University. He did, however, have to drop out of the doctoral programme at Columbia University because he was lacking the funds. His Ph.D. was later conferred by the New York University without a dissertation.

After leaving university Greenspan became a professional economist, founding his own consultancy company at the age of 27 together with Townsend – Townsend-Greenspan & Co. Inc. They soon received some very high-profile clientele providing them with economic forecasts.

Alan Greenspan's first activities in public life was as director of policy research for Richard Nixon's presidential campaign in 1968. *“President Ford appointed Greenspan chairman of his Council of Economic Advisers He took a breather from government during the Carter administration and returned to Washington in 1987, when President Ronald Reagan nominated him as Fed chairman.”*<sup>388</sup> *“Within six months, he was presiding over the biggest stock market crash in Wall Street's history. His flexibility in cutting interest rates temporarily in October 1987 is credited with preventing the crash from turning into a depression. ... It was partly through his influence that the US Congress and the president reached a deal to cut the Federal deficit in 1995. ... Greenspan's role was particularly crucial in 1998 during the Asian and Russian financial crisis, which threatened to undermine the world financial system.”*<sup>389</sup>

Greenspan has acted as chairman of the Federal Reserve Bank through *“... four presidencies- testament to his economic and political acumen – with his fourth four-year term ending in 2004.”*<sup>390</sup>

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<sup>388</sup> <http://abcnews.go.com/reference/bios/greenspan.html>

<sup>389</sup> [http://news.bbc.co.uk/1/hi/business/business\\_basics/178569.stm](http://news.bbc.co.uk/1/hi/business/business_basics/178569.stm)

<sup>390</sup> [http://news.bbc.co.uk/1/hi/business/business\\_basics/178569.stm](http://news.bbc.co.uk/1/hi/business/business_basics/178569.stm)

## A.4.2 Network structure

### A.4.2.i Family and contacts of his family (as of 2000)

Greenspan's parents, Rose and Herbert:

*“Greenspan had learned to adapt early on. He was born in 1926 in New York City to Rose and Herbert Greenspan, both of whom were Jewish. They divorced when Greenspan was about three, and Greenspan, their only child, moved with his mother to her parents' home in the Washington Heights section of upper Manhattan. She worked as a furniture store salesperson. He responded to the stress and confusion by losing himself in baseball. He became a master of the stats and wanted to become a ball player himself.*

*In 1935, when Greenspan was eight, his father, Herbert, a self-educated stock market analyst, published a book called 'Recovery Ahead', predicting that the New Deal would generate an economic and stock market recovery the next year. Greenspan's father was an adherent of Keynesian economics, which held, in part, that government spending could stimulate an economic recovery. Herbert Greenspan's forecast initially came true in 1936, but then the market collapsed in 1937.”<sup>391</sup>*

He seems to have a close relationship to his mother:

*“... Greenspan said he telephoned his mother almost daily and visited her weekly, travelling on the shuttle to New York. ...”<sup>392</sup>*

Greenspan's first wife, Joan Mitchell:

*“In 1952, he married Joan Mitchell, a painter. Less than a year later, the two realised that their expectations were incompatible, received an annulment and remained friends.”<sup>393</sup>*

His second wife, Andrea Mitchell:

*“Greenspan had been virtually living with Mitchell, who was 20 years younger, for nearly 12 years. Their first connection had been through music: she played the violin quite well as a child. Greenspan, a devotee of baroque music, and Mitchell went to classical concerts at the Kennedy Center, often using the presidential box.*

*At the end of 1996, Greenspan began to think about proposing. At a birthday dinner for Mitchell with a dozen close friends at Galileo, one of Washington's best Italian restaurants,*

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<sup>391</sup> Woodward, 2001, p.54 ff.

<sup>392</sup> Woodward, 2001, p.89

<sup>393</sup> Woodward, 2001, p.56

*Greenspan gave a glowing toast to her. A number of guests felt it was as near to a proposal of marriage as possible, with the expected next sentence to be a request that she marry him. But it never came.*

*He later confided to one person that he actually proposed to Mitchell twice before she accepted, but either she had not understood what he was saying or it had failed to register. His verbal obscurity and caution were so ingrained that Mitchell didn't even know that he had asked her to marry him. She found it difficult to understand the depth of his emotional commitment to her.*

*On Christmas Day, Greenspan finally asked, flat out, 'Do you want a big wedding or a small wedding?' It was a message no one could miss.*

*Mitchell was taken by surprise but accepted at once.*

*They announced their engagement at a going-away party they threw for Laura Tyson, who was leaving as director of Clinton's National Economic Council.*

*Four months later, they were married in a private seven-minute civil ceremony at a plush country inn in the Virginia hunt country outside Washington. ...*

*Several days after his wedding, Greenspan told an associate, 'I should have done it sooner.'<sup>394</sup>*

#### A.4.2.ii Network in general (i. Network size & ii. Diversity)

*"Back in his Washington days in Ford's White House, Greenspan frequently visited his mentor, Arthur F. Burns, who was Fed chairman from 1970 to 1978. He had studied under Burns as a graduate student at Columbia in the 1950s. As Greenspan learned about the job of Fed chairman, he concluded that it was amorphous, not something he would enjoy doing. It seemed to be an arcane exercise, and there were large elements he frankly didn't get. ... But now he wanted the job. He had watched what Volcker had done to transform the chairmanship and perhaps save the American economy. It was anything but amorphous."<sup>395</sup>*

*"In 1952, Greenspan met the philosopher and novelist Ayn Rand, a proponent of rational self-interest and radical individualism. The author of 'The Fountainhead', a popular novel about a libertarian architect, took the young Greenspan, then 26, into her circle. Greenspan was a high-IQ mathematician and economic technician who had adopted the philosophy of 'logical Positivism,' which held that nothing could be known rationally with total certainty. He was an*

<sup>394</sup> Woodward, 2001, p.180 ff.

<sup>395</sup> Woodward, 2001, p.22

*extreme doubter and sceptic. The two got into a long series of debates on the issue of values, ethical systems and the nature and origin of morality.”*<sup>396</sup>

*“In 1968, Greenspan became an economic policy adviser to Republican presidential candidate Richard Nixon. His first prolonged contact with Nixon occurred during a meeting of campaign insiders on Long Island. Nixon opened the meeting by uttering more four-letter words than Greenspan knew existed. He was shocked by the contrast between Nixon’s public piety and his private profanity and anger. It was no less, he concluded, than Dr. Jekyll and Mr. Hyde. He was the only member of the senior group not to take a position in the Nixon administration.”*<sup>397</sup>

*“A month later, over the weekend of October 17 - 18, Manuel Johnson-now elevated to the Vice chairmanship of the Board of Governors - ...”*<sup>398</sup>

*“Joseph Coyne, the Fed’s veteran press officer, was along on the flight. ...”*<sup>399</sup>

*“That same day, on the 10<sup>th</sup> floor of the New York Federal Reserve Bank on the edge of Wall Street, E. Gerald Corrigan, the bank’s president, was troubled. Corrigan, a 46-year-old beefy, profane, smart, Jesuit-educated Irishman, was the vice chairman of the FOMC. ...*

*Corrigan had spent nearly his entire career at the Fed. He had been Paul Volker’s aide in D.C. for years and had been president of the Minneapolis Fed before taking over the key New York post on January 1, 1985. He knew without a doubt that the crash was going to cause major problems.*

*Corrigan and Greenspan finally hooked up by phone.”*<sup>400</sup>

*“William Taylor, head of the Fed’s bank supervision enforcement division, rushed into Greenspan’s office as the chairman and Johnson were sitting at a small oval coffee table.”*<sup>401</sup>

*“Greenspan tapped into his network of business contacts in New York. One was E. F. ‘Andy’ Andrews, who wrote the monthly National Association of Purchasing Management Business Survey for 19 years. Greenspan knew Andrews from back in the 1970s, when Andrews had*

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<sup>396</sup> Woodward, 2001, p.34

<sup>397</sup> Woodward, 2001, p.34 ff.

<sup>398</sup> Woodward, 2001, p.36

<sup>399</sup> Woodward, 2001, p.42

<sup>400</sup> Woodward, 2001, p.38 ff.

<sup>401</sup> Woodward, 2001, p.47

*made the survey available to Greenspan, who was then a private citizen, a day in advance. From the survey and his contact with Andrews, Greenspan gained an understanding of who was buying what and in what amounts in a wide range of businesses.*

*He also phoned the purchasing managers at various companies, including some former clients. To his delight, he was now able to get information from his clients' competitors as well, information previously off-limits to him. Those competitors were now more than happy to respond to the Federal Reserve chairman, and he pledged to keep the information confidential. Another of his regular contacts was Robert P. Parker, 49, the associate director for national income, expenditure and wealth accounts at the Bureau of Economic Analysis in the Department of Commerce. He had known Parker for 18 years, going back to his New York and White House days, and they had kept in touch. Parker had been struck that Greenspan was the only private forecaster who had produced a monthly grass national product statistical series for his clients. Greenspan had also been the first to notice that houses, which had shot up in value in the late 1970s, were being sold for large gains - and the profits used for consumer spending. It was a statistic that the government didn't measure, but the gains and the spending that resulted from them created additional inflationary pressures.*

*Greenspan also phoned Jack Welch, the CEO of General Electric. GE had its tentacles just about everywhere, Greenspan found. Welch provided sales data on current products - light bulbs and the like-and also on long-lead products, such as engines, that were helpful to Greenspan.”<sup>402</sup>*

*“On Sunday, August 13, Greenspan was relaxing at the home of Senator John Heinz, the Pennsylvania Republican, and his wife, Teresa, on the island of Nantucket, off Massachusetts. The heir to the Heinz 57 fortune had a perfect retreat, with cool breezes and an ocean view. Heinz had been on Greenspan's Social Security Commission in the early 1980s and had voted for the commission's consensus compromise.”<sup>403</sup>*

*“Greenspan tuned in to the morning television talk shows. Richard G. Darman, Bush's budget director who had recently been described by Newsweek as 'the most brilliant intellect and political gamesman in the government,' was on NBC's 'Meet the Press' nine months earlier, when Bush had announced Darman's appointment, Greenspan had phoned Darman. 'When your appointment was uncertain, I was thinking of tearing up my tickets to the inaugural,'*

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<sup>402</sup> Woodward, 2001, p.60 ff.

<sup>403</sup> Woodward, 2001, p.61 ff.

*Greenspan had said flatteringly, indicating that he thought Darman's role was crucial to a Bush presidency.*

*Darman had been Jim Baker's top assistant in the White House and later his deputy treasury secretary. There was no finer mind in the Bush administration. Greenspan had in recent months urged Darman to come up with a federal budget that would cut the mounting inflationary federal deficit. Darman in turn had been urging lower interest rates to help the economy.*<sup>404</sup>

*"... He consulted with his long-time friend Secretary of Defence Dick Cheney, who had been the White House Chief of staff during the Ford administration. Despite the sober rattling, war was far off in time but likely at some point, Cheney said, essentially giving Greenspan a top-secret summary. The gravest problem was the vulnerability of the initial small wave of U.S. troops who had been sent to the Middle East. They could be crushed by Saddam's forces. Greenspan convened the FOMC August 21, 1990, at a time of incredible tension, uncertainty and speculation about military action. The Mideast crisis had also sent oil prices surging.*<sup>405</sup>

*"... 'It is not a good precedent to have a linkup with fiscal policy,' said Wayne Angell, a Fed governor from Kansas, in reference to the budget deal.*<sup>406</sup>

*"Some spoke up in support of the chairman's proposal. Martha Seger, a Fed governor generally known to favour lower rates, advocated an immediate 0.25 percent cut to be followed by another 0.25 percent cut as a 'reward to the boys on the Hill for doing the budget.'"*<sup>407</sup>

*"...The largest buyer of RTC assets was Joe Robert, a Washington, D.C.-area entrepreneur. He spent about \$8 billion and ended up making a total \$3 billion profit. It was a practical application of old fashioned Ayn Rand capitalism in the money jungle."*<sup>408</sup>

*"After half a dozen members had spoken, Roger Guffey, president of the Kansas City Fed, said he also had some concern about the data - and then he laid down almost a challenge.  
..."*<sup>409</sup>

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<sup>404</sup> Woodward, 2001, p.62

<sup>405</sup> Woodward, 2001, p.68

<sup>406</sup> Woodward, 2001, p.70

<sup>407</sup> Woodward, 2001, p.70

<sup>408</sup> Woodward, 2001, p.74

“... ‘I don’t know whether you consider this a technical point or not,’ said Tom Melzer, president of the St. Louis Fed. Speaking of the rate cut, he asked, ‘Should that be an action taken by the FOMC?’

Greenspan responded by saying that the directive given him left him enough room to do what he’d done.

Dick Syron, the president of the Boston Fed, agreed with Greenspan’s actions but asked if the chairman might want to conduct a formal vote of the committee, so that it would not appear that Greenspan was acting unilaterally.”<sup>410</sup>

“... David Mullins, who had replaced Johnson as board Vice chairman four months earlier, approached Greenspan a few minutes later. Mullins, 45, a former Harvard Business School professor, was particularly close to Nick Brady. He had served as a top adviser to the commission that had investigated the 1987 stock market crash and then had been an assistant treasury secretary to Brady. He had been Bush’s first Fed appointment.”<sup>411</sup>

“... On December 19, 1991, the Board of Governors voted 6 to 1 to lower the discount rate a full 1 percent to 3.5 percent, the lowest it had been since 1964.

The announcement made a splash on Wall Street and at the White House. ‘The Washington Post’ quoted Scott Pardee, chairman of a securities firm in New York, saying, ‘It’s sort of Merry Christmas and Happy New Year from the Fed.’ Bush issued a public statement praising the Fed move, and the next day Greenspan went to the White House, where Bush and his advisers were very happy. ... On the day after Christmas, December 26, Greenspan met with Bush again.”<sup>412</sup>

“When President-elect Clinton invited Greenspan to visit him in Little Rock on December 3, the chairman jumped at the chance. As they talked alone in the Governor’s Mansion, Greenspan found himself quite taken with the new young leader. Clinton was totally focused, as if he had no other care in the world and unlimited time. They ranged over topics from foreign policy to education, and Greenspan saw that Clinton’s reputation as a policy junkie was richly deserved. The president-elect seemed not only engaged but totally engrossed, as best Greenspan could tell.”<sup>413</sup>

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<sup>409</sup> Woodward, 2001, p.75

<sup>410</sup> Woodward, 2001, p.76

<sup>411</sup> Woodward, 2001, p.85

<sup>412</sup> Woodward, 2001, p.86 ff.

<sup>413</sup> Woodward, 2001, p.95

*“Greenspan’s real connection to the new administration was going to be Lloyd Bentsen, the former Texas senator who was now Clinton’s treasury secretary. They were close friends and regularly played tennis together. Greenspan thought that the aristocratic and leathery-faced Bentsen, 71, looked and acted like a president. Bentsen had beaten George Bush in 1970 for the Senate and later had run unsuccessfully as the Democratic Vice presidential candidate in 1988.*

*Though a partisan Democrat, Bentsen had been the powerful chairman of the Senate Finance Committee and was conservative on fiscal and money matters. Greenspan considered him more Republican than Nick Brady.”<sup>414</sup>*

*“He spoke with David Gergen, a long-time communications adviser to Republican Presidents Nixon and Reagan, who had just joined the Clinton White House staff in the same capacity. Greenspan had been friends with Gergen for years, part of his Washington network.”<sup>415</sup>*

*“That’s the most interesting op-ed I have read since I have been here, Greenspan remarked to Senator Daniel Patrick Moynihan, the New York Democrat. ...”<sup>416</sup>*

*“Mortimer B. Zuckerman, the wealthy real estate entrepreneur and the owner and editor in chief of ‘U S. News and World Report, launched a campaign against Greenspan’s rate increases as unnecessarily choking the economy. In his magazine column, Zuckerman kept up a week-by-week drumbeat that mocked phantom ‘inflationary expectations’ and Greenspan’s ‘Delphic utterances’. In Zuckerman’s view, the Fed chairman had failed ‘to understand that huge productivity and efficiency gains have restructured the U.S. economy and fundamentally transformed the prospects for inflation.’*

*After a number of these critical columns, Zuckerman ran into Greenspan.*

*‘What do you know about monetary policy that I don’t?’ Greenspan asked disparagingly.*

*Zuckerman said that he regularly talked with people in the real economy in a wide range of businesses - largely his own.*

*How many do you think I speak to? Greenspan inquired, noting the organised effort throughout the Fed’s 12 districts to speak with hundreds of sources of information*

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<sup>414</sup> Woodward, 2001, p.98 ff.

<sup>415</sup> Woodward, 2001, p.108

<sup>416</sup> Woodward, 2001, p.109

*Zuckerman invited Greenspan to come speak to the 'U.S. News' editorial board. He found Greenspan's talk there the single most brilliant exposition of the economy that he had ever heard - but continued to pound on him nevertheless.*"<sup>417</sup>

*"On Christmas night, Sunday, December 25, Greenspan met with Guillermo Ortiz Martinez, the Mexican finance minister, and Lawrence H. Summers, the 40-year-old undersecretary of the treasury for international affairs. Summers, a Ph.D. economist who had won full tenured professorship at Harvard at the extraordinarily young age of 28, wanted to make sure the Fed and its chairman were involved in the major economic initiatives undertaken by the Clinton administration so they would have a stake in the outcomes. ..."*<sup>418</sup>

*"... Rubin invited Greenspan and Ted Truman, 53, the outspoken, strong-willed head of the Fed's Division of International Finance since 1977."*<sup>419</sup>

*"Thomas H. Hoenig, president of the Kansas City Fed ..."*<sup>420</sup>

*"... From the White House, Laura Tyson sounded out a number of people to see if they could help her draw up a list of possible successors to Blinder.*

*She spoke with Felix Rohatyn, Clinton's favourite New York investment banker.*

*I might be interested in the job myself, Rohatyn said. ...*

*Felix, Tyson said, the Vice chairman of the Fed doesn't really do that much, especially with Greenspan - a long-term, very effective chairman - at the helm. The Vice chairman goes to the boring meetings that the chairman doesn't want to go to and gets the least interesting assignments.*

*No, Rohatyn said, the Vice chairmanship would give him a platform for his views. He and Greenspan went back decades. 'We're friends,' Rohatyn said. 'We've known each other for a long time. It would be different because we're friends. I would be able to have more influence.' ...*

*Tyson didn't think that it was a good idea. Still, she reported what Rohatyn had said to the president.*

*'What a great . . . what an interesting idea!' the president said. ...*

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<sup>417</sup> Woodward, 2001, p.123 ff.

<sup>418</sup> Woodward, 2001, p.138

<sup>419</sup> Woodward, 2001, p.139

<sup>420</sup> Woodward, 2001, p.149

*Rubin said he would be happy to see Rohatyn over at the Fed, that it would be a plus.*

*Privately, Rubin thought it was a terrible idea. His own relationship with Greenspan worked well. If they had the slightest disagreement, instead of shouting opinions at each other, they calmly compared their analyses. There were always identifiable reasons for differing judgments. It rarely got emotional.*

*In contrast Rohatyn was proselytising about more growth.*

*True Believers could upset the balance within an institution. Rohatyn had sounded too much like a crusader.*

*Rohatyn, by the same token, believed that few people understood the closeness of his relationship with Greenspan. Decades earlier, he had hired Greenspan's consulting firm, and he had remained one of Greenspan's clients for years. In the 1970's, when Greenspan had been at the White House as Ford's chairman of the Council of Economic Advisers, he and Rohatyn had been walking together on West Executive Drive, on the White House grounds.*

*'One of these days,' Rohatyn had said, 'wouldn't it be nice if I were secretary of the treasury and you were chairman of the Fed?'* In 1992 after Clinton's election, when Rohatyn had been mentioned as a possible treasury secretary (the job Bentsen got), he had lunch with Greenspan. They were halfway toward the goal Rohatyn had suggested in the 1970s. ...

*Now, Rohatyn told Greenspan about the prospect that they would be working together at the Fed, that he would be nominated to be the Vice chairman.*

*Greenspan was uncomfortable, but he told Rohatyn that he could do the overseas travel, which Greenspan didn't like. He would welcome someone who could do that.*

*It was a tepid endorsement to say the least, but Rohatyn took it as positive.”<sup>421</sup>*

*“... Four months later, they were married in a private seven-minute civil ceremony at a plush country inn in the Virginia hunt country outside Washington. Supreme Court Justice Ruth Bader Ginsburg, Clinton's first appointee to the High Court, performed the ceremony. About 75 guests attended, including former chairman of the Joint Chiefs of Staff Collin Powell, Democratic lawyers Bob Strauss and Lloyd Cutler, Henry Kissinger, Alice Rivlin, Mike Kelley of the Fed, media figures Katharine Graham, Ben Bradlee, Sally Quinn, Jim Lehrer, Barbara Walters, Tim Russert (Mitchell's bureau chief), David Brinkley, Al Hunt and Judy Woodruff and Senators John Warner, Virginia Republican, and Darnel P. Moynihan.”<sup>422</sup>*

<sup>421</sup> Woodward, 2001, p.155 ff.

<sup>422</sup> Woodward, 2001, p.181

#### A.4.2.iii Reliability and trust within his network(s)

*“Since the rate increase of the previous June, Greenspan had raised rates twice more, each by 0.25 percent, and it didn’t look as if he were going to stop. But the subject of interest rates didn’t even come up directly. There was this intangible trust, almost a bond, between Clinton and Greenspan.”*<sup>423</sup>

#### A.4.3 Networking activities

##### A.4.3.i Reference to (the importance of) “the right” contacts and ability to create them

*“... All the Fed governors were full-time and had their offices in the main building ... Greenspan made an effort to get to know each governor, seeking some out in their offices or inviting them to his office for unhurried but pointed discussion of the economy. He called this ‘bilateral schmoozing.’”*<sup>424</sup>

He realised the importance of networking and attended relevant social events, even though he felt uncomfortable:

*“Greenspan was never a complete Rand acolyte. He had a separate career and identity, which caused some to mistrust him. He was a dedicated networker who liked to attend social functions in New York. Branden wrote that he and Rand admired Greenspan’s mind but sometimes thought of him as too much of a social climber, too occupied with worldly status. For Greenspan, it was critical to be in contact with people, and social events were an efficient medium of exchange - even though he was visibly uncomfortable and mingled reluctantly, often making a beeline for someone he knew.”*<sup>425</sup>

And:

*“Over the holidays, Greenspan and Andrea invited a number of the Fed governors, bank presidents and other friends to their home in Northwest Washington for a party. Philadelphia Fed president Boehne wound up next to the chairman, looking out over the pleasant, deep-wooded area at the back of the house. For 10 years, Boehne had watched with amusement*

<sup>423</sup> Woodward, 2001, p.222

<sup>424</sup> Woodward, 2001, p.32

<sup>425</sup> Woodward, 2001, p.56

*how Greenspan, who constantly attended parties, still seemed uncomfortable in social settings - even in his own home.*<sup>426</sup>

The following quote shows that a person's abilities and knowledge are of importance, but his or her contacts to important people are extremely significant, too. This may also seem to support Granovetter's weak ties argument:

*"... Another key player in the Bush administration, Treasury Secretary Nicholas Brady, agreed. Brady, a long-time Bush friend who had succeeded Jim Baker in 1988, liked to remind people that he had once been captain of the Yale squash team-even though he was only the seventh-ranked player on an eight-player team. The team won the national championship, and Brady liked to point toward his captainship as proof that he knew how to get things done.*

*As treasury secretary, his performance had been closely scrutinised and criticized. Darman called Brady a 'dolt' who couldn't pass an introductory economics exam at any American university. He thought Brady was probably the weakest treasury secretary in the history of the country. Whatever his stature as treasury secretary, Brady was quite close to Bush.*

*The continuing U .S. military build-up for the Kuwait - Iraq crisis in the Persian Gulf required that the government show it could reach agreement, Brady said. The most important argument for signing was that the budget deal would give Brady significant ammunition in persuading Greenspan to lower interest rates. Lower interest rates would mean lower costs for new loans, and would also allow businesses and consumers to refinance debts or mortgages at lower rates. Since homeowners increasingly used refinancing as a source of consumer credit, they would be able to buy more automobiles, appliances, home furnishings and a whole variety of consumer goods. That would help the sluggish economy.*

*An improving economy was key to assuring the president's re-election, Brady argued. .*

*Bush finally signed the agreement but later said publicly that there were parts that made him 'gag'.*

*When the budget agreement finally passed, Greenspan ordered the 0.25 percent cut on October 29.*<sup>427</sup>

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<sup>426</sup> Woodward, 2001, p.192

<sup>427</sup> Woodward, 2001, p.71

In the case of Greenspan's re-election as Chairman of the Fed he is able to differentiate between the important and unimportant people are for this decision:

*“‘Look, we’ve got to decide on Greenspan,’ Michael J. Boskin, the chairman of President Bush’s Council of Economic Advisers - the position Greenspan had held under President Ford - said to his White House colleagues at the end of June. ‘Do we reappoint him? Do we put someone else in? There’s such a thing as impact on the markets about whether the Fed chairman is going to be reappointed.’ The decision about whether to reappoint Greenspan had been languishing for months, and Greenspan’s term expired in about six weeks.*

*Infighting and turf wars in the Bush administration had reached the point where Treasury Secretary Brady and John Sununu, Bush’s chief of staff, were not on speaking terms. Both very proud men, neither would go to the other’s office to have a meeting on the subject. Boskin finally assembled the key players in his office in the Old Executive Office Building, next to the White House. Brady, Darman, Sununu and Baskin had a long, intense meeting. None could come up with a viable alternative. A widely reported poll of New York money managers in April and a ‘Wall Street Journal’ poll of financial decision makers in May both found that about 75 percent of the people on Wall Street favoured Greenspan’s reappointment.*

*Greenspan was pretty sure Brady was looking for an alternative, someone else to appoint to the chairmanship. Normally patient, Greenspan was increasingly disturbed and decided that if he didn’t get an answer soon, he was going around Brady to Jim Baker, now the secretary of state.*

*Bush’s economic advisers agreed on a series of questions about the economy that Brady was to ask Greenspan. After months of inaction, the treasury secretary and the Fed chairman finally sat down to talk.*

*Greenspan responded to Brady’s questions by providing his estimate of what the economy might look like over the next year or year and a half. He gave what he considered to be a pretty pessimistic view of the economy, although he did suggest that he thought growth would pick up. He did not figure that he was being interviewed for a job. He had his own relationships with Bush and Baker, and he knew that Baker’s influence was great, particularly on political matters. And nothing was more political than the condition of the economy. Greenspan didn’t think his future was in Brady’s hands, and he wasn’t going to negotiate with him. He could see that the treasury secretary was trying to extract a tangible promise on rates in exchange for re-appointment. Brady took Greenspan’s remarks as a virtual guarantee that Greenspan would act to lower interest rates even faster if he were*

reappointed, and he reported the good news to the president and the economic team. Bush's advisers were somewhat sceptical that Brady had accomplished everything that he said he had. 'Brady is the wrong person to have in there to close a deal,' one of them said.

In Greenspan's eyes, all he had done was offer his economic forecast.

On June 30, Greenspan went over to the White House and met with Bush and some of his economic advisers in the Oval Office. It was the chairman's first visit with the president in six months. ...

Just before 6 p.m. on Wednesday, July 10, Bush called a press conference in the briefing room at the White House with Greenspan at his side.

'Just to top the day with a very important announcement,' Bush began, 'I want to say that it is my intention to send, as soon as possible, to the Senate my intention to reappoint Chairman Greenspan as chairman of the Federal Reserve.'<sup>428</sup>

"That's the most interesting op-ed I have read since I have been here, Greenspan remarked to Senator Daniel Patrick Moynihan, the New York Democrat. ...

Greenspan thought Moynihan's article was quite clever, and he felt a kinship with the professional senator from New York. He was also aware that Moynihan, as chair of the Senate Finance Committee, would be critical to any Clinton deficit reduction program, and he liked to keep in touch. "<sup>429</sup>

#### A.4.3.ii Reference to the establishment, maintenance and use of his network

"... All the Fed governors were full-time and had their offices in the main building ... Greenspan made an effort to get to know each governor, seeking some out in their offices or inviting them to his office for unhurried but pointed discussion of the economy. He called this 'bilateral schmoozing.'<sup>430</sup>

Greenspan got the position as chair of the federal reserve through his network:

"... That was the message James A. Baker III, White House Chief of staff and Ronald Reagan's main political strategist, sent in the summer of 1984 to Paul Volcker, chairman of the Federal Reserve. ..."<sup>431</sup> "... In 1987, Volker's second term was about to expire, and Baker

<sup>428</sup> Woodward, 2001, p.81 ff.

<sup>429</sup> Woodward, 2001, p.109 ff.

<sup>430</sup> Woodward, 2001, p.32

<sup>431</sup> Woodward, 2001, p.15

was arguing forcefully to the president. 'It's time to have your own Fed chairman,' he said 'To my mind there is only one person we can turn to.'

That was Alan Greenspan, 61, a high-profile, low-key New York economist who had served as chairman of the Council of Economic Advisers (CEA) in the Ford White House. Greenspan was perfect, Baker felt. He had seen the man up close for a dozen years. Baker had been undersecretary of commerce in 1975 in the Ford administration and had attended White House economic policy meetings where Greenspan was the key, sensible voice. When Baker was running Ford's presidential campaign in 1976, he had brought Greenspan on Ford's campaign plane as the economic spokesman. And in 1980, Greenspan had provided critical help in crafting a key economic speech for candidate Reagan.

One of Greenspan's finest moments had come as head of the bipartisan National Commission on Social Security Reform that had restored the Social Security system to temporary financial solvency in 1983. It had been a masterstroke of consensus building, Baker thought, as both Democrats and Republicans signed on. Baker himself had led some of the secret bipartisan negotiations at his own home.

When Baker left the White House in 1985 to become treasury secretary, he had asked Greenspan to help him on his Senate confirmation hearings. Again, he found Greenspan's advice informed and political astute. ...

He was not unmindful of the importance of the next year's presidential election when his long time Texas friend Vice President George Bush would be seeking the presidency. Having a Republican Fed chairman serving in 1988 and in a future Bush presidency could make all the difference in the world.

Baker was convinced that Greenspan was the person they needed at the Fed - a team player.

„432

And:

“In 1987, Reagan had brought in former Senate Republican Majority Leader Howard H. Baker Jr. as chief of staff to salvage the presidency during the Iran-contra scandal. Howard Baker, a courtly, Washington-wise pol, had represented Tennessee in the Senate for 18 years. He had served as vice chairman of the Senate Watergate Committee in 1973-74 and watched the Nixon presidency dissolve in lies and self-deceptions. When he accepted Reagan's offer to become White House Chief of staff, he insisted that he be in on all important decisions. ...

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<sup>432</sup> Woodward, 2001, p.20 ff.

*Baker wanted to dump Volcker, and he was pushing hard for Greenspan. Howard Baker knew Greenspan pretty well. The two had associated in Republican circles in the 1970s, and they had played tennis a number of times at Greenspan's private club in the Virginia suburbs.*

*One day in the spring the Bakers invited Greenspan, who headed a private business consulting firm in New York City, to fly to Washington to meet with them at Jim Baker's house in Northwest Washington.*

*They had one question. Would Greenspan be available?*

*If it's not going to be Paul, Greenspan replied, I would accept.*

*The president was weighing his options, Jim Baker said. They wanted just to make sure that if they needed him, he was there.*

*'If you need me, I will be there,' Greenspan said. ...*<sup>433</sup>

And:

*"Howard Baker called Jim Baker to report that Volcker didn't want to stay. Jim Baker was delighted. 'We got the Son of a bitch,'*

*It had been about two months since Greenspan had heard anything more about the Fed chairmanship.*

*Then Jim Baker was on the phone. Volcker had decided to leave. Was Greenspan still interested?*

*Yes, he said in milliseconds.*

*Greenspan and Baker knew each other so well that there was no need for a job interview. There wasn't really anything to catch up on. ...*

*'The president of the United States wants to speak to you.'*

*Alan, said Reagan, I want you to be my chairman of the Federal Reserve Board.*

***Thank you, Mr. President, Greenspan replied, I'd be honoured to do so. ...***

*On August 3, the Senate confirmed Alan Greenspan as chairman of the Federal Reserve by a vote of 91 to 2.*<sup>434</sup>

Another example of how networking works:

*"The president of the United States wants to speak to you.'*

*Alan, said Reagan, I want you to be my chairman of the Federal Reserve Board.*

*Thank you, Mr. President, Greenspan replied, I'd be honoured to do so. ...*

<sup>433</sup> Woodward, 2001, p.21

<sup>434</sup> Woodward, 2001, p.24 ff.

*That night, Greenspan attended a birthday party in Washington that his steady girlfriend, NBC television White House correspondent Andrea Mitchell, was having for a friend. After the guests left, he swore her to secrecy and told her that the next day Reagan was going to nominate him. They stayed up much of the night talking. ...*

*The next day the White House press corps went on red alert. The president was making an appearance in 20 minutes with an important surprise announcement. Baker didn't want word to get out in advance.*

*Afterward, Baker said to Greenspan, 'We were all watching to see if it was going to leak on NBC.'"<sup>435</sup>*

And:

*"... Greenspan knew how the financial system's plumbing worked – an elaborate series of networks involving regular banks such as Citibank, investment banks such as Goldman Sachs, and stock brokerage firms such as Merrill Lynch. Payments and credit flowed routinely among them. The New York Fed alone transferred more than \$1 trillion a day. If one or several of these components failed to make their payments or to extend credit-or even just delayed payment in a crisis - they could trigger a chain reaction and the whole system could freeze up, even blow up."<sup>436</sup>*

And:

*"... Despite the support of the Republican and Democratic leadership in the Congress, it soon was absolutely clear the \$40 billion request would not pass. Mexico was really on the ropes now, and a dangerous impasse had developed.*

*One of the senators on the banking committee whom Greenspan had cultivated was Robert Bennett, a 6-foot-5-inch Utah Republican who had been elected in 1992. As a freshman senator initially in the minority, Bennett was generally ignored. But he went to banking committee hearings and did something unusual - he actually stayed after the opening statements, listening, questioning witnesses intently and absorbing. Greenspan invited him to periodic one-on-one breakfasts at the Fed. Bennett had been an entrepreneur millionaire, heading firms that made audio discs for talking toys and then another that produced calendar day planners and organisers.*

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<sup>435</sup> Woodward, 2001, p.25

<sup>436</sup> Woodward, 2001, p.39

*Senate Majority Leader Dole appointed Bennett to come up with a way out of the Mexican crisis. Bennett spent that weekend studying. On Sunday he invited Warne Angell, the former Fed governor who was a key informal economic adviser to Dole, over to his house. Angell, who was now chief economist for Bear Stearns, said that the only alternative was to use the Exchange Stabilization Fund (ESF), which had been set up 60 years earlier to permit Treasury to intervene to stabilize currencies in an emergency. There was some \$30 billion in the fund, and Treasury had full control of it. Was Treasury willing to go out on a limb?*

*Bennett called Greenspan to explain.*

*'You can't do that,' Greenspan said 'Wayne is wrong.'*

*Bennett said it would require a little backbone, but Congress had authorised and provided money for the fund over the years.*

*'Why do you need congressional approval?'*

*'Because if we do it without congressional approval,' Greenspan explained patiently, 'Congress will come down on us with their fury. We can't do that.'*

*'What happens if you do it,' Bennett replied, 'and Congress is silent?'*

*There was a long pause. 'That would work,' Greenspan said, 'If you could guarantee Congress's silence.'*

*On Monday, January 16, Martin Luther King Jr.'s birthday holiday, Bennett reached Dole.*

*'We can solve this without a vote,' Bennett said, explaining what the Exchange Stabilisation Fund was. Congress would have to be silent-not literally, of course, because there would be the inevitable speeches and denunciations. But as majority leader, Dole could guarantee there would be no vote.*

*'Call Rubin,' Dole said.*

*'Absolutely not,' Rubin said when Bennett reached him. 'No way, forget it, don't even talk about it. We can't go that route.' It would be an end run around Congress - which, if angered, could cut off funding or change the law.*

*Bennett said that Greenspan thought it was possible if Congress did nothing.*

*'Well,' Rubin said, 'I'll talk to Alan.'*

*Over the next several weeks, Dole and House Speaker Newt Gingrich had some of the governors from the states along the Mexican border to Gingrich's office. Texas's new governor, George W. Bush, was one of the strongest voices. The border economy would just go completely down the drain, he said. You guys got to do something.*

*Dole called Clinton, and the next day, January 31, the administration announced it was using \$20 billion from the fund. Many congressional Republicans howled, claiming that the*

*administration was circumventing Congress. Rubin figured that the Republican opponents were most comfortable criticising the administration, because they lacked the courage to act to prevent the assistance. The critics were obviously worried that if they blocked it and all hell broke loose, they would be blamed.*

*Rubin called Bennett.*

*'Senator,' the treasury secretary said, 'It took us two weeks to figure it out, but you were right.'*

*Treasury eventually loaned the Mexican government \$12.5 billion, and the Mexican economy improved and stabilized. The interest rate on the assistance loans was so high that Mexico paid the whole balance back early, in full. Greenspan considered it the first crisis of the new international financial order.'*<sup>437</sup>

And:

*"On Friday, September 18, New York Fed President Bill McDonough was in his lush, old-world panelled office when he received a call from LTCM's Meriwether and Mullins. He was well aware their high-flying firm was in trouble.*

*Their message was simple: LTCM had suffered some quite large losses, and they were having difficulty finding banks or investment firms that would loan them money to avoid defaulting. There was no panic in their voices.*

*McDonough knew Meriwether was a cool customer who probably would never sound panicky, and Mullins was a real market pro. Nonetheless, they were blowing the whistle on themselves. They were nearly out of capital. All this was sufficiently significant, they said, that they would like representatives from the Fed and Treasury to come to Connecticut. 'We'd like you guys to take a good look at our books so you know what's going on.'*

*McDonough realized that this request meant they had really lost their asses. Meriwether and Mullins would not let outsiders into one of the most secretive financial concerns in the world unless the trouble was big. McDonough considered himself the battlefield commander, so it was for him to decide whether representatives of the Fed should go up there. This was also partly a policy question, so the Fed chairman had at least to know and give his approval. ...*

*He called Greenspan, explained the situation and said he wanted to send a team to LTCM. They would be better off if they knew more, and they weren't going to know more unless they went to Connecticut. Nobody had the picture of how big this thing was. They had to get it.*

*Greenspan gave his approval.*

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<sup>437</sup> Woodward, 2001, p.142 ff.

*McDonough spoke with the heads of about 10 major banks and securities firms. 'What's going on, what are you hearing?' he asked. Everyone volunteered concern about the losses at LTCM and whether it could have an impact on world markets. They were indirectly expressing worry about the impact on their own businesses. ...*

*McDonough had a speech scheduled in London. If he cancelled, and that cancellation were linked to a possible leak about a Fed Treasury team visit to LTCM, they could set off a real panic. He went to London.*

*McDonough dispatched Peter Fisher, his number two at the New York Fed, to Connecticut on Sunday, September 20. About 10 a.m. that morning, Fisher, a tall, curly-haired Harvard Law graduate, arrived at LTCM, which was housed in a plain brick building that could have been dentists' offices.*

*For about six hours, Fisher reviewed the books. There were a number of huge surprises. ... The collapse of LTCM would ricochet through the United States and the world financial system. ... This is for the history books, Fisher thought, a potential once-in-a-century meltdown. He called McDonough.*

*There is a 1 in 10 probability of wiping out the U.S. bond market for a week or a month, he said. After that, no one could know what might happen next.*

*On Monday, September 21, ... Greenspan set up a conference call of the FOMC that day to make sure everyone was on board for testimony he was planning to give on the Hill. He wanted to hint more directly that a rate decrease was coming without formally committing himself or the FOMC. No one objected.*

*McDonough returned from London about midnight Tuesday. The details were terrifying. A abrupt and disorderly close-out of LTCM's investments could pose a real risk to the American economy, he concluded. By Wednesday morning, it was clear that LTCM was going to have to be bought by somebody, or it had to have a capital infusion of several billion dollars. Unless one of these things happened that day, LTCM would collapse the next.*

*McDonough and Fisher realized that the large Wall Street investment banking firms like Goldman were as highly leveraged in some respects as LTCM. The consequences of a run were unimaginable.*

*Fisher had arranged for representatives, mostly the CEOs, of 16 banks and brokerage firms to meet at the New York Fed at 10 a.m. Wednesday morning. Jon Corzine, the head of Goldman, told McDonough that it was possible that billionaire investor Warren Buffett, the*

head of Berkshire Hathaway and the second richest man in the world, might head a team that would buy LTCM.

*I want to talk to Warren, McDonough said, to make sure this is for real. He knew Buffett well enough to know that if Buffett were going to invest \$4 billion, it would not be a light-hearted decision.*

*Buffett was in Montana with Bill Gates, head of Microsoft and the richest man in the world, on a bus touring Yellowstone National Park with four other couples. Buffett was willing to buy LTCM. He had calculated that if he put up \$4 billion for the firm, the purchase would stabilize the worldwide markets and he could liquidate with a profit of several billion dollars. With all his money, he realized he could wait for the fat, easy Pitches and swing. This was an opportunity to do just that.*

*McDonough called Buffet's private unlisted number. The line was one that Buffett regularly answered himself. ...*

*It's Bill McDonough, may I speak with Mr. Buffett?*

*Hi, Bill, Buffett said. The offer is real and he had put it in writing, he said. He would not let it fall. But his offer was good only for about an hour, given the bond market's volatility. He would need an answer from LTCM by about noon.*

*McDonough expressed relief and went into his boardroom, where the CEOs and representatives of the 16 firms waited.*

*Fellas, he said, there is another proposal available. I think that many of you would find that more attractive than anything else that could come along, in that it would completely solve the problem. And therefore with appropriate apologies I'd like you all to go back home or do whatever you want to do and come back at one o'clock."<sup>438</sup> ... "About 12:30 p.m., LTCM rejected the Buffett offer, saying that they did not have the authority under their agreement with their shareholders to sell to Buffett.*

*In Montana, Buffett joked with Gates that the national park outing had cost him several billion dollars. Had he been in New York, he was convinced he would have closed the deal.*

*McDonough now realized that this was very convenient for Meriwether and Mullins, because they would have been kicked out at once had Buffett taken over. Now they had a chance to leave with more money.*

*The only rescue possible at this point would have to come from the 16 banks, securities and investment banking firms that had money in LTCM, and their leaders were waiting in McDonough's conference room. ...*

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<sup>438</sup> Woodward, 2001, p.200 ff.

*Herbert Allison, the president and number two at Merrill, took the floor. ... Allison proposed a crude solution-each of the 16 firms would contribute \$250 million. One, Lehman Brothers, said it had problems and could put up only \$100 million. Two others offered less. The major firms upped their contributions to \$300 million. After five tense hours, agreement was reached at about 6 p.m. In all, \$3.6 billion would be contributed. They would take over LTCM, and if the markets stabilised, they might get their money back with a small profit.*

*Everyone applauded. ...*

*The agreement on LTCM, which had stabilised the markets somewhat, fell apart about five times over the next weekend. One bank tried to pull out but finally agreed to stay, and the deal was formally sealed on Monday, September 28.*

*McDonough explained to Greenspan that he and the New York Fed had just played the role of catalyst and honest broker. No public money had been offered or spent. He didn't have to pressure anyone to participate, but he believed that only the Fed could have called all of the players together into one room.*

*Greenspan wasn't happy. McDonough had lent the good name of the Fed to the resolution. The meeting could have been held in any other boardroom in New York. The Fed didn't have to play matchmaker. Greenspan thought that McDonough had exercised bad judgment, rushed in a little too fast. The probability that LTCM's collapse would unravel the entire world financial system was significantly less than 50 percent, but that was still enough to be worrisome. And so, to a certain extent, Greenspan was of two minds. But now it was over, and Greenspan felt it was his job to rally around the Federal Reserve System, and the best way to do that was to back McDonough.”<sup>439</sup>*

Greenspan's passion in life, besides economics and numbers in general, is music and tennis. He specifically uses his sports as a leisure platform for networking:

*“Greenspan at his favourite sport. He regularly played tennis with important political figures, including former Republican Senate leader Howard Baker, Treasury Lloyd Bentsen, Fed members and his wife.”<sup>440</sup>*

*“Greenspan had long had the habit of reaching out to the politically powerful. In 1974, when he went to work as Ford's CEA chairman, Greenspan quickly ingratiated himself as both friend and adviser to Ford, elevating the CEA to a status not seen since the Kennedy years. Greenspan used his experience with advising CEOs of major companies to figure out how to*

<sup>439</sup> Woodward, 2001, p.204 ff.

<sup>440</sup> Woodward, 2001, picture section, picture no. 24

*make himself indispensable to the president. Once, at a White House lunch for the world's finance ministers, Ford noticed that Greenspan's seat was empty.*

*'Where's Alan?' the president asked.*

*An aide said that Greenspan was testifying before Congress and then offered to go and get him.*

*'No, don't get him,' Ford responded, sounding like a concerned parent. 'I just want to know where he is.' The finance ministers went home recounting that the president of the United States could not turn his head without knowing Greenspan's whereabouts.'*<sup>441</sup>

*“'Listen, you don't need to write letters about your concerns,' Greenspan said to Senator Connie Mack, the Florida Republican who had just joined the banking committee. 'Just pick up the phone and we'll talk about it.' Mack, 50, whose grandfather of the same name was the famous owner and manager of the Philadelphia Athletics baseball team, had been a Florida banker. He had recently signed a joint letter to Greenspan from some Republican senators complaining about interest rates. Greenspan made it clear he was available to Mack at any time. When they did talk, Greenspan said, 'Why don't you and I just plan to talk more often.' Mack was soon speaking to Greenspan whenever he wanted, and the two had breakfast or lunch a couple of times a year. He found Greenspan's I'm-on-your-side tone reassuring and his willingness to listen and confer about the economy nearly endless.*

*For Greenspan, this wasn't just the care and feeding of the banking committee. He made himself available to any member of the House or Senate who seemed interested or whom he found interesting. Such private phone conversations or lunches were a source of important information. He could take small bits he picked up from these sessions or his frequent stops on the Washington social circuit and, almost like a professional intelligence officer, assemble those bits into a mosaic - a picture of which way the political winds might be blowing.*

*Greenspan went to lunches at the Business Council, an organisation of business leaders, and listened to the CEOs of America's largest corporations. As soon as they saw he wasn't going to disclose much or press his own conclusions on them but instead wanted to listen, they poured out their anxieties or latest good news. Greenspan insisted that he nearly always learned more from the people who came to hear him speak than they learned from him.*<sup>442</sup>

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<sup>441</sup> Woodward, 2001, p.57 ff.

<sup>442</sup> Woodward, 2001, p.66 ff.

Actively using his network:

*“Greenspan tapped into his network of business contacts in New York. One was E. F. ‘Andy’ Andrews, who wrote the monthly National Association of Purchasing Management Business Survey for 19 years. Greenspan knew Andrews from back in the 1970s, when Andrews had made the survey available to Greenspan, who was then a private citizen, a day in advance. From the survey and his contact with Andrews, Greenspan gained an understanding of who was buying what and in what amounts in a wide range of businesses.*

*He also phoned the purchasing managers at various companies, including some former clients. To his delight, he was now able to get information from his clients’ competitors as well, information previously off-limits to him. Those competitors were now more than happy to respond to the Federal Reserve chairman, and he pledged to keep the information confidential. Another of his regular contacts was Robert P. Parker, 49, the associate director for national income, expenditure and wealth accounts at the Bureau of Economic Analysis in the Department of Commerce. He had known Parker for 18 years, going back to his New York and White House days, and they had kept in touch. Parker had been struck that Greenspan was the only private forecaster who had produced a monthly grass national product statistical series for his clients. Greenspan had also been the first to notice that houses, which had shot up in value in the late 1970s, were being sold for large gains - and the profits used for consumer spending. It was a statistic that the government didn’t measure, but the gains and the spending that resulted from them created additional inflationary pressures.*

*Greenspan also phoned Jack Welch, the CEO of General Electric. GE had its tentacles just about everywhere, Greenspan found. Welch provided sales data on current products - light bulbs and the like-and also on long-lead products, such as engines, that were helpful to Greenspan.”<sup>443</sup>*

And:

*“Sounding out his long list of contacts took a great deal of time, and Greenspan eventually set up a system in which Fed staff members would formally call a long list of companies each week to get their real-time numbers.”<sup>444</sup>*

And:

*“... He consulted with his long-time friend Secretary of Defence Dick Cheney, who had been the White House Chief of staff during the Ford administration. Despite the sober rattling, war*

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<sup>443</sup> Woodward, 2001, p.60 ff.

<sup>444</sup> Woodward, 2001, p.61

was far off in time but likely at some point, Cheney said, essentially giving Greenspan a top-secret summary. The gravest problem was the vulnerability of the initial small wave of U.S. troops who had been sent to the Middle East. They could be crushed by Saddam's forces. Greenspan convened the FOMC August 21, 1990, at a time of incredible tension, uncertainty and speculation about military action. The Mideast crisis had also sent oil prices surging."<sup>445</sup>

And:

"President-elect Clinton named Thomas 'Mack' McLarty, his friend from kindergarten in Hope, Arkansas, as his White House chief of staff. McLarty, 46, the small, gracious CEO of the Arkansas based natural gas company Arkla, had succeeded by cultivating personal relationships. He was soon identified as the new president's main man. Mullins, also from Arkansas, knew McLarty from high school football. Mullins's father had been president of the University of Arkansas when McLarty had been president of the student body.

Greenspan asked Mullins to arrange a private dinner for the three of them at the Metropolitan Club. The downtown Washington establishment was so old world that members were not allowed to use working papers or conduct business at the tables in the main dining room. Greenspan was a member.

Mullins was happy to act as a go-between for such powerful figures. Obviously Greenspan felt vulnerable and out of touch with an incoming Democratic president. At dinner, Mullins noticed that Greenspan was attempting to soften his image as a conservative intellectual. The chairman turned on the charm and schmoozed. Hillary Rodham Clinton was going to oversee a health care reform program, and Greenspan said he would be delighted to talk to her about the issue. He invited McLarty to address the boards of directors of the district banks when they came to Washington. The boards comprised some of the United States's most prestigious businesspeople."<sup>446</sup>

And:

"Bentsen arranged for Greenspan to see Clinton on Thursday, January 28, the eighth day of the new administration. Greenspan told the president that it would be dangerous not to confront the deficit very soon. ... Bentsen urged the president to develop a personal relationship of trust with Greenspan and to listen to him on the critical question of cutting the federal deficit. He also emphasized to Clinton the importance of deficit reduction as a catalyst for lower long-term interest rates.

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<sup>445</sup> Woodward, 2001, p.68

<sup>446</sup> Woodward, 2001, p.99

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*With Bentsen, Greenspan went further. He urged the new administration to set ambitious deficit reduction targets for the federal budget. On February 5, the White House economic advisers sent Clinton a 15-page memo that summarized budget options and Greenspan's analysis. ...*<sup>447</sup>

And:

*"... Six days later, 'The Wall Street Journal' scooped everyone with an inside story reporting accurately that 'Federal Reserve officials voted to lean toward higher short-term interest rates.' 'The New York Times' wrote that the Clinton White House 'would view such action as a declaration of war. And it would probably direct its heavy artillery at Mr. Greenspan.'*

*Greenspan wanted to avoid war between the Fed and the White House at almost any cost. He spoke with David Gergen, a long-time communications adviser to Republican Presidents Nixon and Reagan, who had just joined the Clinton White House staff in the same capacity. Greenspan had been friends with Gergen for years, part of his Washington network. Gergen urged the chairman to give Clinton a pep talk. Polls showed Clinton's approval rating at 36 percent, the lowest of any new president in his first four months. Greenspan needed to encourage Clinton to continue to push his deficit reduction plan.*

*On Wednesday, June 9, Greenspan went to the White House to see the president. ...*

*Clinton spoke yet again with such depth and passion about his deficit reduction plan that Greenspan concluded once more that unless Bill Clinton was the best actor ever, the statements were genuine."<sup>448</sup>*

And:

*"Prior to the February 1 FOMC meeting, Greenspan again made his private rounds with some of his committee members. ..."*<sup>449</sup>

And:

*"... In the meantime, as he had from the start, the chairman worked the Washington network - parties, private lunches and dinners, tennis matches, a steady stream of private, off-the-record gossip, chat and court intrigue. To some it was an ugly and to others an appealing*

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<sup>447</sup> Woodward, 2001, p.99

<sup>448</sup> Woodward, 2001, p.108

<sup>449</sup> Woodward, 2001, p.144

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*feature of the nation's capital. Greenspan found elements of both. Nonetheless it was a useful channel for political intelligence.”<sup>450</sup>*

Obtaining information via his social ties:

*“Greenspan asked his friend Secretary of Defense Dick Cheney for a heads-up before offensive operations began in the Gulf, because of the potential impact on oil prices and the economy. On January 16, the day the air strikes were to begin, Cheney gave Greenspan a top secret briefing. The prospects of dislodging Saddam's forces from Kuwait were excellent, Cheney said, but it would involve weeks of round-the-clock bombing and an inevitable ground offensive some weeks or months down the road. They were entering a period of immense uncertainty and international instability.*

*Greenspan stayed in his office the night the bombing began. He wasn't sure how the financial markets would take it. As the first air strikes appeared on CNN about 7 p.m., he watched oil and other prices gyrate wildly.”<sup>451</sup>*

And:

*“Greenspan was sceptical and wanted to know how much U.S. corporations were making abroad. He asked Steven A. Sharpe, a Fed Ph.D. economist who tracked corporate profits, to go further and see if he could develop an economic model to track and attempt to account for the high stock prices.*

*‘Knowing what's going on with profits is critical,’ the chairman said. Healthy profits generally meant a healthy economy. Early detection of a decline in profits was essential for locating turning points in the economy.”<sup>452</sup>*

And:

*“Greenspan didn't worry that the president or Congress would cut the federal deficit so much as to induce economic chaos. He recalled that Paul Volcker had once said that no one was kept awake at night for fear that Congress would overdo deficit reductions.”<sup>453</sup>*

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<sup>450</sup> Woodward, 2001, p.152

<sup>451</sup> Woodward, 2001, p.75 ff.

<sup>452</sup> Woodward, 2001, p.149

<sup>453</sup> Woodward, 2001, p.100

And:

*“Rubin never considered it a real question. Reappointing Greenspan was a no-brainer. He had attended one meeting in the White House residence to discuss a possible successor to Greenspan. ...*

*A few names were tossed around-the current and past New York Fed bank presidents McDonough and Corrigan, the previous board Vice chairman David Mullins. Rubin didn't think any was a serious alternative. Here Greenspan, an experienced, known chairman, and a Republican, was delivering the exact interest rate policy the economy - and administration - needed. In addition, if they nominated someone else, the administration would get a real fight, if not a bloody defeat, from the Republican-controlled Senate. It was important to have a Clinton nominee confirmed. It was easy to make Greenspan theirs, because in all important respects he already was.*

*Rubin and Tyson essentially said to Clinton, Look, there's no list, but if you ever were going to consider it, this is the kind of list you'd get.*

*Tyson's main point was that they had all come to view Greenspan almost as a member of their team. They didn't think of him as a Republican. He wasn't running the Fed as a Republican. ...*

*Rubin was also at the G-7 meeting in Paris, where he and Greenspan had a chance to speak privately. Taking advantage of a quiet moment, they walked together toward a sense of large plate-glass windows at one end of the room, with a view of Paris before them. The two men had established a feeling of trust, perhaps as much as two adult males in high government posts might find possible. For Greenspan, such friendship, closeness and agreement gave him a sense that they were working for the same firm. Greenspan had once remarked privately, and only half-jokingly, that he considered Rubin the best Republican secretary of the treasury ever, though he was a Democrat.*

*'When you get back,' Rubin said, 'the president's going to want to talk to you.'*

*Greenspan could tell by the body language that it was all favourable.*

*The president's quite pleased with what you've been doing,' Rubin said.*

*The implausible had become plausible. ...”<sup>454</sup>*

And:

*“At the White House, Gene Sperling, who had succeeded Laura Tyson as head of the National Economic Council, had been interviewing candidates to fill Lawrence Lindsey's seat at the*

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<sup>454</sup> Woodward, 2001, p.159 ff.

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*Fed. He believed he had found the perfect person, so he called Greenspan. Sperling liked to let Greenspan know in advance, so if he absolutely went crazy, they had a chance to reconsider.*

*We're going to put up Roger Ferguson, Sperling reported.*

*Who is he? Greenspan asked. I've never heard of him.*

*A B.A. in economics, a law degree and a Ph.D. in economics - all three from Harvard. A partner at McKinsey, the premier international management consulting firm, and currently their director of research. And he's African American.*

*I understand you have many goals, Greenspan said.*

*The Clinton administration had made diversity a prominent priority. It's a difficult time, the chairman added, and the Fed needed technical expertise. Ferguson's career path was somewhat unusual for a Fed appointee, and Greenspan wanted someone who could come in and hit the ground running on some of the regulatory and technical banking issues.*

*Sperling said Ferguson had given one of the best interviews he had ever seen. Summers also thought Ferguson was terrific.*

*Sperling said Ferguson was the man for the job.*

*It's the president's decision, Greenspan replied. It's very nice of you to call and give me a heads-up."<sup>455</sup>*

And:

*"Several years ago, when it looked as if President Clinton had said something that contradicted Greenspan's view, Gene Sperling phoned Greenspan to give him a heads-up that the press would be making inquiries.*

*'I'll just say a little bit this way,' Greenspan told Sperling,' and a little bit that way, and I'll completely confuse them so there'll be no story.' There was not."<sup>456</sup>*

And:

*"A regular on the Washington party circuit, Greenspan is an introvert who goes out to gather intelligence."<sup>457</sup>*

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<sup>455</sup> Woodward, 2001, p.187

<sup>456</sup> Woodward, 2001, p.228

<sup>457</sup> [http://news.bbc.co.uk/1/hi/in\\_depth/uk/2000/newsmakers/2285287.stm](http://news.bbc.co.uk/1/hi/in_depth/uk/2000/newsmakers/2285287.stm)

And, here is also an example of a give and take:

*“On his copy, Bentsen had written with his lead pencil referring to Greenspan, ‘He urges 140 or above,’ meaning Greenspan thought a \$140 billion reduction in the economic plan four years out (1997) would be more credible than \$130 billion. It revealed their most private, confidential talks. In a sense, Bentsen and Greenspan were using each other. For Bentsen, Greenspan’s view on a specific deficit target was a potent weapon in the Clinton administration deliberations. For Greenspan, a big reduction in the federal deficit would make his job immensely easier, because lower deficits would likely mean lower actual inflation. Bentsen, and perhaps Clinton, could help Greenspan fight inflation.”<sup>458</sup>*

*“ ... In the course of their regular breakfasts and almost daily phone conversations, the firm of Greenspan & Rubin continued their discussions of the skyrocketing stock market. ...”<sup>459</sup>*

#### **A.4.4 Networking skills**

##### **A.4.4.i Reference to the person’s social competences**

###### **A.4.4.i.a Self-awareness**

He is aware of his emotions and mental state of mind. However, he is also able to translate these into actions:

*“... It was the most risky time for a sharp rate increase, with stock prices so high and the Dow Jones average over 2,500. There was no way to control the secondary consequences of their decision. He turned to the screen on his computer to see how the markers were going to react - the stock market, the bond market, the foreign exchange markets. He knew the reaction would be negative. Had they done too much? Greenspan wondered. There was no way to know yet. He felt tension. He scanned the charts and graphs and numbers he had followed for so long-and suddenly, there before his eyes, he could see the dips he was causing. It was one of the most unusual experiences of his life. As he watched, he felt almost as if an earthquake were occurring and the building were rattling. He didn’t know whether the building would collapse, but he hoped the situation would calm down. Finally the markets stabilised with the Dow Jones down only 38 points on the day. ...*  
*He felt confident in his knowledge of the markets and the economy, but he was also nervous.*

<sup>458</sup> Woodward, 2001, p.100

<sup>459</sup> Woodward, 2001, p.178

*Then he concluded, 'If you're not nervous, you shouldn't be here.'*

*Nervousness and doubt were central to the task.*<sup>460</sup>

And:

*"... 'Were we to go the 0.25 percent with the announcement effect and the shock effect, I am telling you that these markers will not hold still.' Then, pulling out all the stops, he said, 'I've been in the economic forecasting business since 1948, and I've been on Wall Street since 1948, and I am telling you I have a pain in the pit of my stomach.' He noted that in the past he had listened to his instincts and that they had been right.*

*This pain in the stomach was a physical awareness Greenspan had experienced many times. He felt he had a deeper understanding of the issue - a whole body of knowledge in his head and a whole value system - than he was capable of stating at that moment. If he was about to say something that wasn't right, he would feel it before he was intellectually aware of the problem it was this physical feeling, this sense in the stomach, that he believed kept him from making dangerous or absurd statements that might appear on the front page of the newspapers. At times, he found his body sensed danger before his head. As he walked down the street there would be an approaching car, and his body knew to stay out of its way before his head. ...*<sup>461</sup>

And:

*"... Greenspan wanted to move a full 0.75 percent t.*

*Blinder was a little bit surprised. He had concluded that they would eventually have to move a total of 0.75 percent, but he thought that it might be wise to do it incrementally.*

*Greenspan wanted to get there right away. He didn't cite any specific data, focusing instead on his feeling that the pot was boiling and that 0.75 percent was the only way for the Fed to get out ahead of the markets. ...*<sup>462</sup>

And:

*"Greenspan recalled to several people a story about the importance of independence, making it clear he valued his. About 25 years earlier, when his consulting business, Townsend-Greenspan, was going strong, a CEO of one of the large brokerage houses tried to buy the firm. He was reluctant to sell. The CEO wrote a price on a piece of paper, placed it in an*

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<sup>460</sup> Woodward, 2001, p.32 ff.

<sup>461</sup> Woodward, 2001, p.120

<sup>462</sup> Woodward, 2001, p.134

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*envelope, handed it to Greenspan and said, take it home, open it and think about it over the weekend. At home, Greenspan opened the envelope. It was a wonderful price, very high and tempting. Later that day Greenspan got a pain in his stomach, and it would not go away. The next day he had the same pain. It would not leave him. He concluded that it was a signal - the body knowing something before the head. He realised that with the sale of his business, he would be selling his independence. He declined the offer.”<sup>463</sup>*

And:

*“Greenspan was in a state of sober rapture. At 73, he found that his mind still functioned well. He figured he would know he was losing it when he started to have difficulty with mathematical relationships, and he was aware of no diminution of that mental capacity. He was fully engaged. His only problem was that occasionally he couldn’t remember people’s names.”<sup>464</sup>*

He seems to have a good analytical mind:

*“Now that was interesting, Greenspan said to himself as he headed home on the shuttle. He was aware of some of the friction between the administration and Volcker, but was not aware that it had reached this point. The circumstance of the meeting with the Bakers was in certain respects almost more important than the content, he thought. They could have picked up the phone and asked, in the remote case Paul leaves, would you be willing to come down? Instead, they had arranged a fairly elaborate get-together - chief of staff in the middle of the day, treasury secretary in the middle of the day at the same place, their visitor flying in from New York. That’s not the way things were done around Washington, Greenspan knew. The White House and Treasury were next to each other, and convenience normally drove such matters. Something unusual was up. He was a math whiz and was always calculating probabilities. The chance that he would get the appointment was not in the low range, 1 out of 10. It was high probability, Greenspan figured, maybe 3 out of 4. ... And it was obvious to him that Baker wanted him in the job. Could Baker deliver Reagan? He had done it once before. ...”<sup>465</sup>*

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<sup>463</sup> Woodward, 2001, p.152 ff.

<sup>464</sup> Woodward, 2001, p.220

<sup>465</sup> Woodward, 2001, p.22

And: He seems to be able to see the larger picture, even if others do not. Further in this example he seemed to know what steps needed to be taken, even if others did not agree with him:

*“On the morning of Tuesday, August 18, 1987, Greenspan walked through the door of his private office and into the adjoining massive conference room at the vast marble Federal Reserve headquarters on Constitution Avenue in downtown Washington, D.C. He had been chairman of the Fed for less than one week. Gathering in the stately meeting room were the members of the Federal Open Market Committee (FOMC), which Greenspan now chaired. ... This buying or selling of U.S. Treasury bonds, so - called open market operations, gives the Fed a brutal tool. Changes in the fed funds rate usually translate into changes in the long-term interest rates on loans paid by consumers, homeowners and businesses. In other words, the FOMC’s monopoly on the fed funds rate gives the Fed control over credit conditions, the real engine of capitalism. ...*

*The FOMC, and now Greenspan, had the full weight of the law and nearly 75 years of history - and myth - behind them. They could work their will if they chose.*

*The committee members spent several hours in a roundtable discussion, reviewing economic conditions. Then Greenspan took the floor.*

*‘We spent all morning, and no one even mentioned the stock market, which I find interesting in itself,’ Greenspan said casually, looking down the colossal 27-foot-long oval table.*

*Greenspan’s remark was deeply understated. He meant to convey something significantly stronger: For God’s sake, he was trying to tell them, there are factors other than the old classical forces moving the economy. There was more to all of this than consumer or government spending, more than business inventories and profits, more than interest rate, national economic growth, savings, unemployment statistics and inflation. There was a whole other world out there—a world that included the stock market, which had run up 30 percent since the beginning of the year. Wall Street and the financial markets of New York were creating the underlying thrust for a severely overheated economy, the new chairman was certain. The run-up had created more than \$1 trillion in additional wealth during the last year. Most of these gains were only on paper, but some people were undoubtedly cashing in and spending more. In any case, many people felt richer - a powerful psychological force in the economy. On top of that, a stock speculation and corporate takeover frenzy was sweeping Wall Street. And nobody had mentioned it. Was the distance between New York and Washington so great?*

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*None of the committee members seemed interested in Greenspan's point about the stock market, but the chairman was convinced of it. By many measures, including earnings, profits and dividends, the stock market was really quite overvalued, he felt. Speculative euphoria was gripping the economy, and the standard economic models and statistics weren't capturing what was happening. Greenspan was concerned about the stability of the entire financial system. During his first week on the job, he had quietly set up a number of crisis management committees, including one on the stock market. The situation, that summer of 1987, had the makings of a potential runaway crisis, he thought.”<sup>466</sup>*

And:

*“... Greenspan could see that the other committee members didn't share the alarm he felt and had somewhat concealed. He realised he didn't know enough yet. And he also didn't think, having been there only a week, that he could walk into the room and expect loyalty and support from everyone. It would not happen. If he had proposed raising the fed funds rate, he could not be sure he would get the votes. It would, he concluded, take quite a while to gain intellectual control of the committee and persuade the members to let him lead them. For Greenspan, it was a sobering moment.”<sup>467</sup>*

And:

*“A month later, over the weekend of October 17 - 18, Manuel Johnson-now elevated to the Vice chairmanship of the Board of Governors – -spent hours and hours attempting to find a buyer for the largest savings and loan in the United States, the American Savings & Loan Association. American Savings had secretly informed the Fed they were going to have to announce bankruptcy on Monday unless someone took them over. ...*

*The price of bonds moves the opposite of interest rates, so as interest rates had soared, the value of their bonds had sunk to the point that the thrift was effectively broke.*

*Johnson was unable to find a buyer, he reported unhappily to Greenspan. To make matters worse, the stock market had been down on Friday. It looked as though it was going to be a rough Monday.*

*Greenspan took a professorial approach. Great, if a buyer can be found, but if not, market forces will work it out.*

*On Monday, October 19, the stock market was down in the morning but then started back somewhat. Greenspan decided to stick to his schedule, which included a speech at the*

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<sup>466</sup> Woodward, 2001, p.27 ff.

<sup>467</sup> Woodward, 2001, p.31

*American Bankers Association convention in Dallas the next morning. By the time he left for the airport, the stock market was back down again, by several hundred points, and the situation looked awful. He debated whether to back out and stay in Washington, but he concluded that cancelling the speech would convey a message of crisis. At mid-afternoon, he boarded American Airlines flight #567 bound for Dallas.*

*The plane had no phone, so when he got off in Dallas he immediately inquired about the market.*

*'It was down five oh eight,' replied Jim Stull, a senior Vice president at the Dallas Fed who had come to meet him.*

*'Wow, what a terrific rally!' Greenspan said. The market was down only 5.08 points. Whew! No, 508.*

*That meant close to \$1 trillion in wealth - more than 20 percent of the stock market's total value - was wiped out for the moment. ...*

*Greenspan finally reached the Adolphus Hotel in downtown Dallas and held a conference call with Johnson and the others. Some were saying, Well, let's wait and see.*

*'You people have not been around long enough,' Greenspan said. He had been around, around money, around the markets, around people on the verge or in panic, for decades. 'This is a shock to the system,' he said. 'You don't assume it's going to wear off.' Greenspan knew that a crash of that magnitude was like a gunshot to the entire financial system. The full pain would not be felt right away. There would be ripple effects for a long time, a possible convulsion in the economy and in society. Someone on the phone said that everything might be okay 'You know what just happened?' Greenspan said. 'We just destroyed a huge chunk of wealth in this country.' ...*

*Greenspan said he would stay and give his speech the next morning. It was important not to appear panicky, he said. ...*

*It was a crisis, a financial Vietnam, but it had happened over a single day, not years, creating the potential for a major economic catastrophe. If the stock market continued down, the system - the relationships, rules and theology that Greenspan had built into his head and that had become a part of who he was - would break apart....*<sup>468</sup>

And:

*"Bush's economic advisers agreed on a series of questions about the economy that Brady was to ask Greenspan. After months of inaction, the treasury secretary and the Fed chairman finally sat down to talk.*

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<sup>468</sup> Woodward, 2001, p.36 ff.

*Greenspan responded to Brady's questions by providing his estimate of what the economy might look like over the next year or year and a half. He gave what he considered to be a pretty pessimistic view of the economy, although he did suggest that he thought growth would pick up. He did not figure that he was being interviewed for a job. He had his own relationships with Bush and Baker, and he knew that Baker's influence was great, particularly on political matters. And nothing was more political than the condition of the economy. Greenspan didn't think his future was in Brady's hands, and he wasn't going to negotiate with him. He could see that the treasury secretary was trying to extract a tangible promise on rates in exchange for re-appointment. Brady took Greenspan's remarks as a virtual guarantee that Greenspan would act to lower interest rates even faster if he were reappointed, and he reported the good news to the president and the economic team. Bush's advisers were somewhat sceptical that Brady had accomplished everything that he said he had. 'Brady is the wrong person to have in there to close a deal,' one of them said. In Greenspan's eyes, all he had done was offer his economic forecast."<sup>469</sup>*

And:

*"This extraordinary conversation continued for two and one-half hours. Greenspan had not intended to stay for lunch, but he did. From the beginning he sensed a kind of academic atmosphere, which he liked. To his mind, Clinton was close to being an intellectual, inclined and willing to talk about abstract ideas. He was different from the four Republican presidents Greenspan had seen up close-Nixon, Ford, Reagan and Bush. The chairman left the meeting thinking, either this guy has a lot of the same views as I do, or he is the cleverest chameleon I have ever run into. The first would be a compliment, Greenspan thought. The second: Oh, wow, this guy is something if he can fool me.*

*Clinton's conceptual ability was impressive, but Greenspan wondered whether Clinton was too thoughtful - whether he might know too much on both sides of the major questions of the day. Might the new president be indecisive, like Hamlet, incapacitated by endless debate and doubt?*

*On the five-hour trip back to Washington, Greenspan tried to assess what he had observed. Clinton was a politician and a notorious, schmoozer. Had the session been some kind of show? That, Greenspan felt would have been a remarkable one. No, he concluded, it was straight and sincere. Clinton was what Greenspan termed an 'intellectual pragmatist'. He didn't necessarily like to use the term because it was slightly pejorative, but he couldn't think*

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<sup>469</sup> Woodward, 2001, p.82

*of another that captured Clinton. It fit, and it also applied to Greenspan himself. Part of Clinton's campaign promise included tax increases on the wealthy, a violation of Republican orthodoxy. But increasing taxes reduced the federal deficit - and those deficits, Greenspan thought, were such a threat to the future of the economy that it might just be worth it to support Clinton's proposal.*

*One of the main paradoxes, Greenspan realised, was that by running up the federal budget deficits, Reagan had effectively borrowed from the period that was now going to be the Clinton era. In his era, Clinton would have to pay it back by paying down the deficit in same way. The irony was that Clinton probably wouldn't have been elected if Reagan hadn't created the deficits. Reagan had bequeathed Bill Clinton his major problem, but he had also given him his opportunity to win the presidency.*

*Clinton was happy that Greenspan had not made the typical Republican plea against raising taxes on the rich.*

*'We can do business,' Clinton told Vice President-elect Al Gore after the Greenspan meeting.*<sup>470</sup>

And:

*"At the meeting, Greenspan was able to convince the FOMC not to raise rates. Only Gary Stern, the Minneapolis Fed bank president, dissented, because he thought a modest rate increase was called for. Even with only a single dissent, Greenspan could hear the hoofbeats. He was running into increasing resistance to the committee's interest rate restraint. He couldn't rely on his back-of-the-envelope calculations about prices and profits, even though he considered his computations about 95 percent accurate. He needed validation.*<sup>471</sup>

Learning from experience:

*"The economy in August of 1987 was going too strong. There were no measurable signs of inflation yet, but the seeds were there. Greenspan was sure of it. He saw from economic data reports that the lead times on deliveries of goods from manufacturers to suppliers or stores were increasing, just starting to go straight up. Rising lead times meant that demand was increasing and goods were growing more scarce. He had seen this happen too many times in past decades, so he felt that he knew exactly what he was looking at. The pattern in economic history was almost invariably that you got a bang as prices headed up, resulting in 8 or 9*

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<sup>470</sup> Woodward, 2001, p.95 ff.

<sup>471</sup> Woodward, 2001, p.1710

*percent annual inflation - a disaster that would destroy the purchasing power of the dollar.*

...<sup>472</sup>

And:

*“For all Greenspan knew, it might have been a handful of individuals who made the move. There was no telling whether the transactions were made out of knowledge or desperation, skilful calculation or serendipity. Was it possible that American capitalism was given a reprieve by the strategic - or accidental - investment of several million dollars? It was possible, of course. Or perhaps the bottom had been reached and the market had pulled out naturally. Whatever the answer, Greenspan’s largest realization was they hadn’t known what to do. They could set up a crisis committee, confer, send messages to the financial markets, seek intelligence, talk tough or smart, look at the data until they were blue in the face and try to project, but they were all novices given the problem they faced.*

*That wonderful, nebulous space between the free markets of capitalism and regulations of government was the land of the unknown. It was Greenspan’s first major lesson at the Fed, and he had been chairman only 72 days.”<sup>473</sup>*

And:

*“Greenspan had learned to adapt early on. He was born in 1926 in New York City to Rose and Herbert Greenspan, both of whom were Jewish. They divorced when Greenspan was about three, and Greenspan, their only child, moved with his mother to her parents’ home in the Washington Heights section of upper Manhattan. She worked as a furniture store salesperson. He responded to the stress and confusion by losing himself in baseball. He became a master of the stats and wanted to become a ball player himself.*

*In 1935, when Greenspan was eight, his father, Herbert, a self-educated stock market analyst, published a book called ‘Recovery Ahead’, predicting that the New Deal would generate an economic and stock market recovery the next year. Greenspan’s father was an adherent of Keynesian economics, which held, in part, that government spending could stimulate an economic recovery. Herbert Greenspan’s forecast initially came true in 1936, but then the market collapsed in 1937.”<sup>474</sup>*

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<sup>472</sup> Woodward, 2001, p.29

<sup>473</sup> Woodward, 2001, p.46

<sup>474</sup> Woodward, 2001, p.54 ff.

He seems to be very self-confident:

*“Despite Greenspan’s apprehension about the economy, he felt confident in his ability to serve as chairman. The key was his private business experience as much as it was his previous government service as chairman of Ford’s Council of Economic Advisers from 1974 to 1976. In 1953, at the age of 27, he had founded an economic consulting business in New York City with William Townsend, a bond trader. With a love of mathematics, data and charts, Greenspan had developed models for forecasting based on detailed measurements of real economic activity - from loans and livestock to mobile home sales, inventories and interest rates. Townsend-Greenspan only had about 35 employees, and Greenspan was a hands-on manager, involved in every facet of the firm’s work. In addition to his consulting work, he had served on the boards of Automatic Data Processing, Alcoa, Mobil, Morgan Guaranty and General Foods, among others. He believed that he understood the backbone of the American economy from this experience - computers, metal, oil, banking and food.”<sup>475</sup>*

And:

*“Young Greenspan, intense, with thick, black, slicked-back hair, thought he could outdo anybody in an intellectual debate, but Rand regularly cornered him. It was like playing chess, and all of a sudden, out of nowhere, she would checkmate him. Rand was compelling, and the young man was enthralled. ... but he believed that the debates and the intellectual rigour gave him a sense of how to determine what was right and what was wrong in his value system. He felt acutely conscious that he would know when he was compromising the market-oriented, pro-capitalist principles he and Rand shared.”<sup>476</sup>*

And:

*“Darman was increasingly convinced that Greenspan was grossly mishandling the money supply. He also believed Greenspan was wrong to insist that the economy could not grow more than about 2.5 percent a year without producing inflation. He had charts and his Harvard Business School education to reinforce his arguments There was an immutable law, a mathematical formula, about the relationship of economic growth and inflation to the money supply.*

*Greenspan didn’t disagree with the formula, but the key variable, the velocity- or number of times money changed hands - could no longer be measured accurately for a variety of reasons that were accepted by most economists. That was why the Fed was essentially just*

<sup>475</sup> Woodward, 2001, p.30

<sup>476</sup> Woodward, 2001, p.34

*setting the fed funds rate, not attempting to target the money supply directly. Greenspan reiterated his view to Darman that the Fed had been unable to control or even accurately measure the money supply for years. The notion that it was possible was outdated.*

*Darman persisted, convinced that Greenspan wanted to go into the history books as the super-inflation fighter, at almost any cost, including Bush's re-election. He sent Greenspan memos and faxes urging lower rates.*

*After several years of sparring, Darman had begun to take Greenspan's obstinacy somewhat personally. He began telling associates that the chairman resembled the character Woody Allen plays in his movies, a man of some intellect but simultaneous insecurity. Greenspan wasn't leading. Darman wanted him to get up and declare, 'I'm lowering rates. Your Fed is with you. I'm not going to let this happen to this country.'*

*Darman also found it odd that Greenspan said he telephoned his mother almost daily and visited her weekly, travelling on the shuttle to New York. This was not ordinary in Darman's mind, and he suggested sarcastically that there were parallels with Norman Bates, the mother-obsessed character in Alfred Hitchcock's 'Psycho'. We can't be sure the mother exists, Darman joked. In any case, he suggested that Greenspan's mother had a strange and unnatural power over her son. And he and the administration seemed to have too little*

*Darman would not go away. He argued to Greenspan that the of chairman of the Fed was a crucial character in the confidence game of building support and national optimism. Greenspan had almost an obligation to cut rates - perhaps just for two or three months, as a vote of confidence in the economy, in Bush, in America. That would be a near-zero-risk operation for Greenspan, Darman said. If the chairman would get up and say, We are confident the economy can grow, and then act accordingly, it would*

*Greenspan listened but did not budge. He disagreed with Darman. That was just not how the economy worked.*<sup>477</sup>

And: He seems to have found his place and has enough self-confidence in order not to mind a lower position if it means that he can continue working in the Federal Reserve:

*"Some news stories were treating his reappointment as inevitable, but he had no assurances. Since nothing was certain, Greenspan had to consider what he might do if Clinton appointed someone else as chairman. ...*

*According to the arcane procedures of the Fed, Greenspan has an appointment to the Board of Governors that did not expire until the year 2006. His term as chairman expired on March*

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<sup>477</sup> Woodward, 2001, p.88 ff.

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2, 1996. If he was not reappointed as chairman, he could remain on the board. It would be very unusual, but he decided that it was almost certainly what he wanted to do. If he had to move down the table out of the chairman's seat, he felt that there was enough respect for his views that he could still have some influence.

The calculation also had to do with the lack of attractive alternatives. Greenspan was not interested in making more money; he had millions already. He would be 70. He didn't want to go back to New York City, and he loved Washington. But most of all, he loved the Fed. He had access, to the best economic data in the world, and there was an intellectual purity to the work that was done there. He had found his place. The title and seat at the table were less important.<sup>478</sup>

“Turning to the on going negotiations between the Bush administration and the Democratic congressional leaders on a possible budget agreement to reduce the federal deficit, Greenspan said, ‘We are in a sense in economic - political policy turmoil. In that type of environment, it is crucial that there be some stable anchor in the economic system. It's clearly not going to be on the budget side; it has to be the central bank.’ And with grammatical pedantry, he added, ‘It's got to be we!’

In those circumstances, he urged a more modest view of what they could accomplish. ‘I don't think it is in our power to either create a boom or prevent a recession,’ he said ‘I would suggest that perhaps the greatest positive force that we could add to this particular state of turmoil is not to be acting but to be perceived as providing a degree of stability,’ he added, rounding out his argument against taking any action on interest rates at the present time. He proposed a directive that was asymmetric toward ease, to indicate that though the FOMC wasn't moving rates down now, they were in all likelihood headed in that direction.<sup>479</sup>

About himself:

“A ‘strict’ libertarian, as he termed himself, Greenspan was a believer in the efficacy of free markets. Attempts by government to tamper with them or direct them were folly. He was appalled when President Nixon ordered wage and price controls in his first term - the ultimate intervention into the markets, a disfiguration of capitalism government. ...

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<sup>478</sup> Woodward, 2001, p.158

<sup>479</sup> Woodward, 2001, p.69

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*Now, Greenspan's job as Fed chairman made him perhaps the federal government's foremost regulator, and the irony was not lost on him. Still, he didn't want to lose his sense of the virtue of keeping his hands off free markets.*"<sup>480</sup>

And:

*"Greenspan attended George Washington High School on West 192<sup>nd</sup> Street, three years behind Henry Kissinger. He loved math but was average in most of his other course work. A lifelong lover of music, he decided after graduation to enter the Juilliard School of Music - then known as the Institute of Musical Art - where he studied clarinet and piano. After two years at Juilliard, he dropped out and joined the Henry Jerome Band, a 1940s-Style big band noted for its bebop stands in New York City and on tour across the country. ... By the end of his run with the Henry Jerome Band, he knew that he was a skilled musician - but he also knew that exceptional talent was innate."*<sup>481</sup>

And:

*"So much of his life is interior - inside his mind, with its private calculations and thoughts. Greenspan considers himself an introvert. His demeanour suggests that he hates expediency, prefers detachment and rigor. Yet he has a tendency also toward the political calculation and manipulation that have become necessary for longevity in Washington. He plays the game skilfully."*<sup>482</sup>

Others about him:

*"After he was chairman more than a year, Greenspan's operating style was beginning to emerge - intellectual engagement, tempered by emotional detachment; near obsession with economic data, tempered by a steady stream of doubt and uncertainty over the impact; indirectness as a means of achieving a desired outcome, tempered by sudden directness and a desire to have it his way, and a pronounced deference to political power."*<sup>483</sup>

And:

*"... It was as if the father passed on to his son a tendency toward convoluted prose and wandering sentences. Perhaps the son also saw the value of obscuring the message,*

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<sup>480</sup> Woodward, 2001, p.35

<sup>481</sup> Woodward, 2001, p.55

<sup>482</sup> Woodward, 2001, p.226 ff.

<sup>483</sup> Woodward, 2001, p.54

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*particularly if your own conclusions and sentiments were not clear or were best not revealed. In the mature Alan Greenspan, the result was a verbal caution that could be maddening, a series of loose boards and qualifications in sentences that would allow him an exit ramp from nearly everything he said.”<sup>484</sup>*

And:

*“For his part, Darman felt that Greenspan was a political animal who would respond to public pressure. Look at the results, he said to others, noting that Greenspan continued to lower the fed funds rate slowly.”<sup>485</sup>*

And:

*“... David Mullins, who had replaced Johnson as board Vice chairman four months earlier, approached Greenspan a few minutes later. Mullins, 45, a former Harvard Business School professor, was particularly close to Nick Brady. ...*

*He observed Greenspan’s leadership style carefully. The chairman tended to provide leadership by supporting, adopting or appearing to adopt the views of others on the board or FOMC. Because Greenspan was so deferential, allowing everyone their argument, he was able to pull a very large consensus along on the ultimate decisions.”<sup>486</sup>*

And:

*“Of Greenspan, Clinton added, ‘He was also, I think it’s worth noting, one of the very first in his profession to recognize the power and the impact of new technologies on the new economy, how they changed all the rules and all the possibilities.’. In fact, his devotion to new technologies has been so significant, I’ve been thinking of taking Alan.com public, then, we can pay the debt off even before 2015.’ Greenspan’s willingness to stay in the job should be a cause of celebration in this country and around the world.”<sup>487</sup>*

And:

*“He is the kind of person who knows how many thousands of flat-headed bolts were used in a Chevrolet and what it would do to the national economy if you took out three of them. (Former Rep. Frank Ikard, D-Texas)”<sup>488</sup>*

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<sup>484</sup> Woodward, 2001, p.55

<sup>485</sup> Woodward, 2001, p.63

<sup>486</sup> Woodward, 2001, p.85 ff.

<sup>487</sup> Woodward, 2001, p.224

<sup>488</sup> [http://news.bbc.co.uk/1/hi/business/business\\_basics/178569.stm](http://news.bbc.co.uk/1/hi/business/business_basics/178569.stm)

And:

*“Biographer Bob Woodward calls Greenspan ‘Maestro’, both for his musicianship, and his method of financial guidance, his ‘awareness of every instrument in the political and economic orchestra’.”*<sup>489</sup>

#### **A.4.4.i.b Self-regulation**

*“‘Help!’ said a new voice on the phone first thing the next morning, Tuesday, October 20. It was Howard Baker, Reagan’s chief of staff.*

*‘Something bothering you, Howard?’ Greenspan asked.*

*Baker was feeling pretty lonely. ‘You’ve got to get back here,’ he said. ...*

*Greenspan still wanted to give his speech before leaving Dallas to convey a sense of business as usual. Corrigan and Johnson said he had to go to Washington immediately. A routine speech to bankers in the midst of an obvious crisis would send a signal that the chairman was out of touch with reality. Greenspan cancelled his speech.”*<sup>490</sup>

*“... Joseph Coyne, the Fed’s veteran press officer, was along on the flight. He asked Greenspan how he was able to appear so calm.*

*‘You don’t worry about things you can’t do anything about,’ the chairman replied. Until they landed there wasn’t much he could do. He returned to his thoughts.”*<sup>491</sup>

*“Some others on the FOMC were unhappy that Meyer was running around declaring that too many people were employed. Ed Boehne, the longest-serving member of the committee, thought Meyer was a public relations disaster. How could the Fed justify or explain itself to the public when one of its governors made such declarations? ...*

*Greenspan thought Meyer was a bit tone-deaf politically, but as usual he didn’t say anything.”*<sup>492</sup>

*“In a rare television interview that August, former President Bush said that Greenspan had been responsible for his 1992 defeat. ‘I think that if the interest rates had been lowered more dramatically that I would have been re-elected president, because the recover that we were in*

<sup>489</sup> [http://news.bbc.co.uk/1/hi/in\\_depth/uk/2000/newsmakers/2285287.stm](http://news.bbc.co.uk/1/hi/in_depth/uk/2000/newsmakers/2285287.stm)

<sup>490</sup> Woodward, 2001, p.39

<sup>491</sup> Woodward, 2001, p.42

<sup>492</sup> Woodward, 2001, p.186

would have been more visible,' Bush said, adding a zinger, 'I reappointed him, and he disappointed me.'

Greenspan found it sad. In 1992, Bush and Brady had been urging him to lower rates more and faster. Greenspan knew that the economy had actually been in an economic recovery in 1992, and that it was President Bush who had failed to explain that politically. But he chose not to challenge the former president. He still felt a deference toward anyone who had served as president t, and he didn't feel the issue was one for him to raise with Bush."<sup>493</sup>

And:

"... But Darman was very smart, and he had influence with the president and Jim Baker, now the secretary of state, who retained his portfolio as the new president's chief political adviser. So Greenspan engaged in cautious debate with Darman. He was never as dismissive as he wanted to be, always willing to continue the seminar, engaging the budget director in a range of technical discussions. The approach was simple - hear him out, wait him out, always be open, make no enemies - and make your own decisions."<sup>494</sup>

He seems very self-controlled even in times of panic and distress:

"At the Fed, Greenspan reached a key executive in the Chicago options exchange, who said the market there was about to collapse as well.

'Calm down,' Greenspan said. 'It's containable. Don't worry, don't panic.' He was fascinated to see how powerful people functioned under stress. It reminded him of the 'Apollo 13' astronauts who successfully repaired their spacecraft in outer space by manufacturing a replacement part they had not brought along. Does your mind or psyche freeze over? He wondered. He was going to find out.

He also spoke directly with a number of big players from the largest financial institutions. Their voices were shaking. Greenspan knew that scared people had less than perfect judgment. He didn't pray, and he didn't cry - though he admitted later that he would have wept if he had thought it would keep the markets from deteriorating further. If he didn't do something, this crash had the potential to devastate the American economy."<sup>495</sup>

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<sup>493</sup> Woodward, 2001, p.196

<sup>494</sup> Woodward, 2001, p.63

<sup>495</sup> Woodward, 2001, p.44 ff.

And:

*“... The chairman had another problem He had been telling himself that he should not expect reappointment to another four-year term. After all, he had been appointed to the job twice by Republican presidents - by Reagan in 1987 and by Bush in 1991. A Democratic president would want to choose his own chairman. If Greenspan were president, he would want to choose his own person. It wasn't plausible that he was going to get another chance.*

*By November 1995, no one at the White House or in the administration had brought up his reappointment in their frequent conversations with him. And, of course, Greenspan had not brought it up. His term was over in five months. He was wearing fashionable double-breasted suits at times and eating only vegetables for lunch, generally looking fit and ready. He was also waiting. ...*

*When the subject of his future came up, he would adopt a stance of studied nonchalance. He would have had eight good years. If Clinton reappointed him, he would accept. If not, that too would be okay. He worked at showing neither anxiety nor pain. He wanted that to be clear. He shrugged. He smiled. He was a man comfortable and at the top of his game. But the message was clear that he was available. He spoke admiringly of presidents who did the politically unexpected.”<sup>496</sup>*

He is described as a good loser, even maybe ‘too good’ a loser:

*“As he worked his way through the business and political world, Greenspan discovered that avoiding confrontation served him well. Confrontation only empowered his opponent. Robert Kavesh, Greenspan's former classmate at NYU and a friend, saw Greenspan display this trait on the tennis court. ‘He was almost too good a loser,’ Kavesh said. ‘Sometimes you like someone you beat to smoulder. He didn't smoulder. He would just shower and go back to work.’ Greenspan didn't have screaming matches with colleagues, and he very rarely, if ever, raised his voice. Sober explication and a kind of studied nonchalance were his only armour.”<sup>497</sup>*

He seems to be able to hold back if there he sees a good reason for it:

*“... Inflation was still too high, at more than 4 percent, so he said he anticipated that they would have to continue to raise rates - but he was willing to wait, given some differences that had surfaced within the committee. He proposed that the committee hold off but adopt an*

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<sup>496</sup> Woodward, 2001, p. 152

<sup>497</sup> Woodward, 2001, p.57

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*asymmetric directive toward tightening, granting him the authority to increase rates if data came in during the next six weeks showing some signs of inflation.”<sup>498</sup>*

And:

*“Johnson, the vice chairman, wanted Greenspan to agree to let it be known that the Fed would supply the necessary liquidity on Monday to head off another stock market crash. In 1987, the Fed had promised liquidity after the Monday crash. This would be a pre-emptive declaration. Greenspan wanted to wait.*

*Johnson was in charge of the crisis management committee at the Fed. Convinced he was right, he took matters into his own hands and leaked to ‘The New York Times’ and ‘The Washington Post’ that the Fed would be ready to supply liquidity, as it had during the 1987 crash. ...*

*... because of the leaks, Greenspan and those who managed the open market operations felt forced to supply more money to the system. It was designed to be carried out in such a restrained way as not to signal another rate cut, but the action had the practical effect of cutting rates another 0.24 point.*

*The Dow Jones ended the day up 90 points.*

*Greenspan did not say or do anything about Johnson’s unilateral action. The damage was done. A blow-up would be contrary to his desire to let the incident just fade away.”<sup>499</sup>*

And:

*“His public words are carefully filtered and weighed. When someone at a party once asked Greenspan how he was, he jokingly replied, ‘I’m not allowed to say.’”<sup>500</sup>*

And:

*“Because almost everything he says can affect the lives of shoppers and investors alike, Greenspan selects his words and actions with great discretion. Many Beltway operators from both parties take comfort in Greenspan’s calming prudence and preference for subtle, not sweeping, economic adjustments.”<sup>501</sup>*

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<sup>498</sup> Woodward, 2001, p.59

<sup>499</sup> Woodward, 2001, p.63 ff.

<sup>500</sup> Woodward, 2001, p.227 ff.

<sup>501</sup> [http://news.bbc.co.uk/1/hi/business/business\\_basics/178569.stm](http://news.bbc.co.uk/1/hi/business/business_basics/178569.stm)

And:

*“As a man whose every utterance and smile can change spreadsheets across the world, he is inevitably careful with his words.”<sup>502</sup>*

He seems to be able to give into others if he feels it is for the best:

*“... Let’s take a major step, Mullins said now. The short-term interest rates, both the red funds rate and the discount rate, could be safely moved lower than the inflation rate. That would mean businesses and consumers would have real interest rates that would be less than zero, which should provide a giant stimulus to the economy. Greenspan had been resisting, but with Corrigan pushing, too, the chairman began to consider it more seriously. Both the FOMC vice chairman and the board vice chairman were saying essentially the same thing. They had a point, Greenspan concluded, and it was important to preserve consensus - even if it formed around the proposals of others.”<sup>503</sup>*

He is able to project an image about himself the way he sees fit, and unlike others does not have an image imposed on him:

*“In this culture, politicians, actors and nearly all public figures are produced and handled. Greenspan emerges as one of the few who seems to maintain a steady and sober detachment. Most other powerful figures have a television persona, often defined by glibness and efforts at cleverness. The public gets a flash of B-roll stock footage of the chairman walking across the street - arriving at an FOMC meeting, he always looks the same - grim, even gloomy, briefcase under his arm, an unrevealing look on his face. Though it isn’t, it could be the same suit year after year. It is the same street and the same briefcase.”<sup>504</sup>*

#### **A.4.4.i.c Motivation (also to do with handling set backs and frustrations)**

He does not give up:

*“At, the chairman’s weekly breakfasts with Rubin and his deputy Larry Summers, Greenspan had been floating his ideas about productivity growth.*

*‘Yeah, but Alan,’ Summers said once, ‘maybe there’s a constant error, and it should’ve been plus 1 percent for the last 40 years. How do you know it’s accelerated?’*

*Greenspan wasn’t sure, but he kept coming back, week after week, with more ideas. Summers tried them out on Treasury’s top economists, who thought the notions incoherent, if not*

<sup>502</sup> [http://news.bbc.co.uk/1/hi/in\\_depth/uk/2000/newsmakers/2285287.stm](http://news.bbc.co.uk/1/hi/in_depth/uk/2000/newsmakers/2285287.stm)

<sup>503</sup> Woodward, 2001, p.86

<sup>504</sup> Woodward, 2001, p.228

*idiotic. Greenspan's theories simply did not fit into the rigorous, well-tested economic models and concepts that had been developed over decades.*

*During the coffee break of the FOMC's next meeting, on Tuesday, August 20, Greenspan collared Larry Slifman, the associate director of the Fed's Division of Research and Statistics. Slifman, a small-framed, intense Ph.D. economist of considerable caution, had been on staff going back to the Volcker era.*

*'Look at these numbers,' Greenspan said, pointing to a special monthly report of charts and tables that Slifman's division had prepared for him. It was a crude attempt to refine the pricing and profit data by types of businesses. Greenspan pointed to data on prices, which were relatively stable, and then to profits, which were still going up, and then to productivity - the output per hour of a worker. The charts showed productivity going down. ...*

*For years Greenspan had had Research and Statistics work on special studies that 'disaggregated' data, broke it into finer pieces. ...*

*Greenspan wanted the numbers so he could get his hands around different kinds of businesses. There was not just one economy but many, and individual parts and types performed differently. How were the service businesses such as auto repair doing compared to retailers or manufacturers? National numbers with everything lumped together didn't tell them enough.*

*...*

*When Greenspan had come to the Fed nearly a decade earlier, Slifman had been dismissive of his research requests, certain they would be dry holes. But over the years, he had discovered that many yielded several barrels a day - and some occasionally produced a gusher of new, useful ways to look at information.*

*Greenspan had been questioning the official productivity numbers for almost three years. The numbers could not be right. The problem in part was that disputing them was almost like arguing with the reports of yesterday's temperature range in the newspaper. Someone had assembled the data from all over the City. If your backyard thermometer registered something different, it was hardly convincing. How to find the flaw? Where were the errors most likely to be Greenspan continued his own calculations. ...*

*'Do you have a few minutes?' Greenspan said on the phone to Larry Slifman right after Labour Day. The chairman suggested Slifman bring with him someone expert in national income.*

*Slifman and Carol Corrado, another Ph.D. in economics and the chief of the industrial output section, went to Greenspan's office. ...*

*After about 45 minutes, Slifman and Corrado left, feeling they had been assigned the economist's equivalent of a Manhattan Project.*

*The chairman was also developing a parallel track. He delved deeper into the ranks of the Research and Statistics Division. 'I would like for someone to produce numbers for me on output per hour - productivity - by industry,' he requested. There were dozens of different industries - farming, mining, public utilities, finance, health service, education and even motion pictures. He wanted productivity calculations for each.*

*Slifman and Corrado merged the legal breakdown with the breakdown by industry. On Thursday, September 19, Corrado wrote a computer program that looked back to 1960, producing 155 categories.*

*When they looked at the results, the stunner was that the service businesses, from the gas stations to the sole proprietorships and partnerships - roughly one-third of the businesses in the country showed a 0.5 percent decline in productivity over the last two decades. ...*

*It was a double discovery of immense significance. The service productivity numbers, which were negative, had to be wrong. These wrong numbers were dragging down the aggregate productivity numbers for the economy as a whole. Therefore, productivity was higher across the board.*

*Greenspan was delighted. It was, at this preliminary point, a hypothesis that could readily dissolve. But it was a possible explanation. He had the economists up to his office before the next week's FOMC meeting to express his appreciation."<sup>505</sup>*

#### **A.4.4.i.d Empathy**

*"After a coffee break, Greenspan told his colleagues that he sensed a pessimism about the ability of the political system to solve problems such as the deficit. He said he had contemplated the overall picture as much as possible. Given all the alternatives, he proposed that they agree to an asymmetric directive to tilt in favour of increasing rates. That directive would be made public in six weeks when summary minutes were released."<sup>506</sup>*

And:

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<sup>505</sup> Woodward, 2001, p.171 ff.

<sup>506</sup> Woodward, 2001, p.106

*“...The next morning Meyer read a front –page story in ‘The Wall Street Journal’. The headline read, in part: ‘How Hard Mr. Meyer Tries Not to Move the Markets; Why He Failed Yesterday.’ He was slightly sick, but no one at the Fed said much to him.*

*Shortly thereafter Greenspan invited Meyer down to his office. Let’s just talk about the economy, the chairman proposed, and the Fed’s interest rate decisions.*

*They talked about the forces on the economy and the data they had. Meyer confessed that he was on the edge and was struggling. His own forecast and those of many other private forecasters showed repeatedly that the economy should slow down, and it hadn’t. All the forecasts expected inflation to pick up, and it hadn’t. ...*

*Let me tell you what I’m thinking about, Greenspan said. This Is why I’m not concerned. He went over the disaggregated data on productivity in more detail. The world and the economy were changing. It was their job to figure out how and why.*

*They were two of the best economists In the country, and they could talk, and they did-for a long time.*

*Meyer was impressed. It had been a wonderful discussion.”<sup>507</sup>*

#### **A.4.4.i.e Social skills**

*“... Greenspan could see that the other committee members didn’t share the alarm he felt and had somewhat concealed. He realised he didn’t know enough yet. And he also didn’t think, having been there only a week, that he could walk into the room and expect loyalty and support from everyone. It would not happen. If he had proposed raising the fed funds rate, he could not be sure he would get the votes. It would, he concluded, take quite a while to gain intellectual control of the committee and persuade the members to let him lead them. For Greenspan, it was a sobering moment.”<sup>508</sup>*

*“... Several hours later, at a special early morning meeting, the Board of Governors voted to raise the discount rate 0.5 per cent. The vote was 6 to 0.*

*Greenspan knew Jim Baker was not going to be pleased. Bush was behind 7 points in the polls, and the economy was a growing issue in the campaign. Greenspan and Baker had been friends for 12 years, and Greenspan owed Baker a lot – in some respects, no less than the Fed chairmanship. Greenspan also respected and admired Baker for his political and social skills.*

<sup>507</sup> Woodward, 2001, p.183 ff.

<sup>508</sup> Woodward, 2001, p.31

*He often said that if he were ever in serious legal trouble, he would hire Baker as his attorney in a heartbeat.*

*Greenspan believed that Baker deserved to be told about the rate increase. He decided to go over to see Baker to break the news before it was announced.*

*At Treasury that Tuesday afternoon, Greenspan tried to come straight to the point. ...*

*Baker flew off the handle and began screaming bloody murder. Greenspan thought it was a simulation of anger, not genuine, a display of Baker's showmanship. He felt he could see through Baker. The treasury secretary would perhaps need to be able to tell Bush, their political associates or the media that he had blown his top and taken Greenspan to the woodshed. Greenspan had long since dissected Baker's well-honed verbal style. He knew that a word delivered with a certain spin or manner could change the whole meaning.*

*Baker's rant lasted only about 20 seconds. 'What shall I say?' he then inquired. He asked for specific advice on what the proper public response should be. ...*

*Years earlier, Greenspan had learned a rule of institutional survival: Bring the bad news yourself. He didn't believe anyone else could convey such delicate messages the way he wanted them conveyed. It was important to look people in the eye, to layout the facts that would soon emerge and to be as direct as possible. The chairman had found that there was no alternative if he wanted to have future relationships with those like Baker. But it wasn't just a matter of survival. Bringing the news personally gave him power – he was the one who had and would share the still-secret decision-and further cemented his relationship.*<sup>509</sup>

And

*"... That was the message James A. Baker III, White House Chief of staff and Ronald Reagan's main political strategist, sent in the summer of 1984 to Paul Volcker, chairman of the Federal Reserve. ..."<sup>510</sup> "... In 1987, Volker's second term was about to expire, and Baker was arguing forcefully to the president. 'It's time to have your own Fed chairman,' he said 'To my mind there is only one person we can turn to.'*

*That was Alan Greenspan, 61, a high-profile, low-key New York economist who had served as chairman of the Council of Economic Advisers (CEA) in the Ford White House. Greenspan was perfect, Baker felt. He had seen the man up close for a dozen years. Baker had been undersecretary of commerce in 1975 in the Ford administration and had attended White House economic policy meetings where Greenspan was the key, sensible voice. When Baker was running Ford's presidential campaign in 1976, he had brought Greenspan on Ford's*

<sup>509</sup> Woodward, 2001, p.52 ff.

<sup>510</sup> Woodward, 2001, p.15

*campaign plane as the economic spokesman. And in 1980, Greenspan had provided critical help in crafting a key economic speech for candidate Reagan.*

*One of Greenspan's finest moments had come as head of the bipartisan National Commission on Social Security Reform that had restored the Social Security system to temporary financial solvency in 1983. It had been a masterstroke of consensus building, Baker thought, as both Democrats and Republicans signed on. Baker himself had led some of the secret bipartisan negotiations at his own home. ...*

*Baker was convinced that Greenspan was the person they needed at the Fed - a team player.*  
„511

#### A.4.4.ii Morals

He seems to be an honest person:

*“ ... He has been frank enough to stand before the new and amazing economic circumstances that he helped create and in the end declare them a mystery. It is impossible to account fully for the continuing high growth, record employment, low inflation and high stock market. ...*  
„512

He seems to stick to his beliefs, is appalled by others who go against them and admires those who stand up for these beliefs, too:

*“A ‘strict’ libertarian, as he termed himself, Greenspan was a believer in the efficacy of free markets. Attempts by government to tamper with them or direct them were folly. He was appalled when President Nixon ordered wage and price controls in his first term - the ultimate intervention into the markets, a disfiguration of capitalism government.*

*In the summer of 1974, Nixon asked Greenspan to become chairman of the President's Council of Economic Advisers, one of the most distinguished posts in government for an economist.*

*‘There's a very good chance I might feel the necessity of resign in three months,’ Greenspan warned Nixon's chief of staff, Alexander M. Haig. New wage and price controls would trigger his departure. ‘I physically would not be able to function and I would have no choice but to resign. And I wouldn't want to do that to you and I wouldn't want to do that to me.’*

*Haig and others assured Greenspan there would be no more forays into wage and price controls.*

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<sup>511</sup> Woodward, 2001, p.20 ff.

<sup>512</sup> Woodward, 2001, p.13

*Greenspan finally accepted the post but took an apartment in Washington on a month-to-month lease, figuratively keeping a packed suitcase by the door. In an unusual graphic comparison, he said coming to Washington to advise a president in a free-market economy that might suddenly shift to one with wage and price controls was like a gynaecologist being asked to practice proctology.*

*He stayed on after Nixon resigned in 1974 and Gerald Ford assumed the presidency. Greenspan thought that Ford was the bravest and most correct when he didn't meddle with free markets during the recession of 1974-75, even at the risk of his own political future.”<sup>513</sup>*

He seems to be fair. The following example shows that he gives others the chance to prepare and does not like to surprise them:

*“As he wrote out his thoughts and conclusions, he realised that his formal testimony would be more complex than usual. Greenspan decided it would be unfair to spring it on the Budget Committee cold without giving them advance warning. So he sent copies up to the Hill the day before so the senators and staff could prepare questions.”<sup>514</sup>*

*“Her novel, Atlas Shrugged, is currently impressing members of the UK's Conservative Party. Of his time in her ironically-titled Collective, Greenspan recalled: ‘She made me think why capitalism is not only efficient and practical, but also moral.’”<sup>515</sup>*

#### A.4.4.iii People skills

*“Greenspan cultivated relationships with any number of people involved in politics, always making people think that he was on their side. ‘I felt in him a kindred philosophical spirit,’ wrote David Stockman, Reagan’s first budget director, in his 1986 memoir, ‘The Triumph of Politics’. Greenspan’s attentiveness - his willingness to take a phone call immediately, arrange breakfasts or a private meeting the next day - left many with the feeling that they had an exceptional relationship with the chairman. He had dozens of such relationships.”<sup>516</sup>*

*“... But Darman was very smart, and he had influence with the president and Jim Baker, now the secretary of state, who retained his portfolio as the new president’s chief political adviser.*

<sup>513</sup> Woodward, 2001, p.35

<sup>514</sup> Woodward, 2001, p.235

<sup>515</sup> [http://news.bbc.co.uk/1/hi/in\\_depth/uk/2000/newsmakers/2285287.stm](http://news.bbc.co.uk/1/hi/in_depth/uk/2000/newsmakers/2285287.stm)

<sup>516</sup> Woodward, 2001, p.58

*So Greenspan engaged in cautious debate with Darman. He was never as dismissive as he wanted to be, always willing to continue the seminar, engaging the budget director in a range of technical discussions. The approach was simple - hear him out, wait him out, always be open, make no enemies-and make your own decisions.”<sup>517</sup>*

He is able to move things and motivate others in a very subtle manner, as shown in the following example:

*“Meanwhile, Tyson spoke with Greenspan by phone about the Rohatyn nomination. This was the way the president wished to proceed.*

*Greenspan sent a simple message: He could live with it. It would be okay, he was not going to block it.*

*Several key Republicans on the Senate Banking Committee, which would have to vote to confirm him, soon voiced public opposition to Rohatyn. Fed governors each had to come from different Federal Reserve districts, and the New York slot was filled by Greenspan. Rohatyn was trying to figure out a way to use the residence he was building in Wyoming as a way to serve from another district, but the whole issue posed a technical obstacle that critics could use to derail the nomination.*

*Tyson warned Rohatyn that trouble was brewing. It looked as if he didn't have a single Republican vote on the Senate Banking Committee, and Republicans controlled the Senate.*

*'I know a lot of Republicans,' Rohatyn responded. Many were his friends*

*'Good,' Tyson said. 'Then use them.'*

*Rohatyn had served on the board of directors for Universal MCA, the giant film and music conglomerate, with Howard Baker, Reagan's chief of staff and a former Senate Republican leader. He asked Baker, who was now in private law practice in Washington, to make some calls.*

*Baker made a bunch of calls to Republican senators to tell them how Felix had saved the credit of New York City, that he wanted the Fed Vice chairmanship and that they would be lucky to have him. But Baker couldn't get a handle on it. It was pretty clear to him that someone was poisoning the well, but he couldn't tell who.*

*When Tyson spoke with Rubin, she could see he was uncomfortable.*

*It is not the right thing, he said. It wouldn't be good for the Fed, and he didn't think it would be good for the president to stake out a firm position on Rohatyn, because they could lose.*

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<sup>517</sup> Woodward, 2001, p.63

Next, Tyson heard from a senior member of the White House staff in charge of liaison with the Senate about a likely Rohatyn nomination. 'Do you know what Alan Greenspan is doing?' the senior staffer asked.

No, she did not.

He's setting up all the chips so that it won't happen, the staffer said. Republicans were frustrated with Clinton, and the Republican attack machine was always poised to strike at his nominees. Republican Senate Banking Committee members took their cues from Greenspan, and though the chairman wasn't opposing Rohatyn, he wasn't saying that he wanted him, either. It was subtle, but it was happening.

Tyson couldn't find any hard evidence of Greenspan's direct involvement, but clearly the negatives were building.

Senator Connie Mack, Florida Republican and a key member of the banking committee, went after Rohatyn-publicly declaring him a dangerous, big-government, liberal interventionist.

Rubin learned from some Democratic senators that he could get a confidential reality check about Rohatyn from Senator Bennett, the Republican on the banking committee.

'What will happen if we send you Greenspan as chairman and Rohatyn as vice chairman?' Rubin asked Bennett.

'We will confirm Greenspan in a heartbeat,' Bennett said, 'and Rohatyn will not get out of committee.' If for some reason Rohatyn got approved by the banking committee, his nomination would be filibustered on the floor of the Senate, Bennett added.

'Yeah, but they go together,' Rubin said, not tipping his hand. 'We'll send them up together.' 'It will take a nanosecond to separate them,' Bennett said, 'and Greenspan will be confirmed. ... and Rohatyn will be filibustered until Connie Mack doesn't have a breath left in his body.'

"Senator," Rubin said, "thank you for your candour.' It was what he had been telling the White House, and they wouldn't believe him. Now maybe they would.

On Monday, January 29, 'The Washington Post' ran a front-page story reporting that most economists, including Greenspan, did not believe higher sustained economic growth over many years was possible. The next week, on February 4, Stanford University economist Paul R. Krugman weighed in in 'The New York Times Magazine' declaring that higher-growth proponents like 'financier-pundit Felix Rohatyn' were living with a 'delightful fairy tale'. Krugman wrote, 'In fact, the so-called revolutions in management, information technology and globalisation are vastly overrated by their acolytes.'

*It was now clear to Rohatyn that neither the White House nor Greenspan was going to make the required effort. He calculated that he might spend three months fighting to win the post, and it would be a big nuisance for all - Clinton, the Fed and himself - with no assurance he could win it. The low level of enthusiasm was so evident that he felt he could almost touch it. After all, he had powerful forces on his side - much of the business community, the president and even the conservative editorial page of 'The Wall Street Journal'. But they all seemed not to matter. On February 12, Rohatyn faxed a withdrawal letter to the White House. White House Chief of Staff Leon Panetta urged him to hold off for a day. Rohatyn said no.*

*He exchanged perfunctory phone calls with Rubin and Greenspan.*

*Yeah, it was too bad, they all agreed. After all, it was an election year, and the Republicans were playing politics.”<sup>518</sup> ... “... ‘An example of what should not be done that most people in this room are familiar with was the outrageous political treatment of my intention to nominate Felix Rohatyn to be the vice chairman of the Federal Reserve,’ Clinton said. ... ‘That’s why I wanted to put Felix Rohatyn on the Federal Reserve. But the politics of Washington said, No, we insist on the conventional wisdom; we insist on holding people down; we don’t think it’s worth debating - over and out.’ He went on to denounce the cynicism of the age.*

*Erskine Bowles, the deputy chief of staff, knew of Rubin’s quiet but strong opposition to Rohatyn’s nomination. Yet Rubin hadn’t left any fingerprints. Even the president didn’t know. Bowles realised that even presidents didn’t always get their way, especially when the forces they were pushing against were both powerful and concealed.”<sup>519</sup>*

And:

*“In the course of their regular breakfasts and almost daily phone conversations, the firm of Greenspan & Rubin continued their discussions of the skyrocketing stock market. Over the last five years, the Dow had advanced from about 2500 to over 6000 that fall - more than doubling. The increase by December of 1996 was a lofty 26 percent for the year.*

*Rubin couldn’t believe how high the market had gone. Never in his lifetime had he seen anything like it, and he was deeply worried. People had lost their discipline in making financial decisions. The market was dramatically and perhaps dangerously overvalued.*

*Did Treasury and the Fed have an obligation to do or at least say something? It was the one element in the economy that was out of balance. The Japanese had provided a telling lesson: After a meteoric rise, their stock market had plummeted and their economy was in the doldrums.*

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<sup>518</sup> Woodward, 2001, p.161 ff.

<sup>519</sup> Woodward, 2001, p.165

...

*Both Rubin and Greenspan knew that the treasury secretary could hardly speak out against the stock market and issue a warning. The White House would have to be involved, and the president's political advisers considered the bull market a badge of honour. Several times, somebody at the White House had proposed that the president should ring the bell at the New York Stock Exchange, and Rubin had to go to battle station to stop it. He told the president that he would live with that film clip forever if the market went down. ... Since pride in the stock market run-up was part of the psychology at the White House for at least some, Rubin could hardly try to unring the bell.*

*Greenspan decided to give it a try.*

*He had agreed to accept the Francis Boyer Award at the American Enterprise Institute, a conservative think tank in Washington, in early December and to speak at the black-tie dinner ceremony.*

*He began work on his speech ... He decided to voice his concerns about the stock market in a long historical discussion of the notion of prices. He would carefully pose those concerns in the form of a question. How do we know, he wrote, when - and the phrase just popped into his head - 'irrational exuberance' has unduly escalated the value of stocks?*

*He knew the phrase 'irrational exuberance' would have market consequences. The market was overvalued. But on another level, by phrasing it as a question, he was giving himself cover. He would just be professing his uncertainty, because who could know for sure?*

*He circulated the draft speech to others at the Fed.*

*It was a typical makes-my-eyes-glaze-over Greenspan speech, but at the end Rivlin saw a cloaked but clear warning about 'irrational exuberance' in the stock market. It seemed like an offhand remark, not necessarily related to the rest of the speech. All the same, Rivlin feared that it might be taken too seriously. She walked next door to Greenspan's office, a marked-up copy in hand.*

*'Do you really want to say that?' she inquired.*

*'I think I do,' he replied.*

*After delivering the speech, Greenspan returned to his table, where his girlfriend, Andrea Mitchell, was also seated*

*'So what was the most important thing I said?' he asked her.*

*She looked perplexed, not at all sure. He was sure.*

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*After the speech, the markets in Japan, which were still open, began to drop sharply. The Dow fell 145 points in the first half hour of trading the next day but rebounded, ending the day off only 55 points at 6381.*<sup>520</sup>

*“‘I will just cut this short by saying a few months ago, I would have been an unequivocal no in opposition,’ said Maxine Waters, a Democrat from Los Angeles, during her opening statement. Waters, 59, represented South Central Los Angeles and Watts. Like many liberals in Congress, she objected to providing huge amounts of money to the IMF while a number of American inner-City areas remained underdeveloped.*

*‘Today,’ she went on, ‘I have an open mind, and one of the reasons I have an open mind is because of something as simple and fundamental as Chairman Greenspan being willing to listen to what I am concerned about, and taking that trip to South Central Los Angeles and walking along a block that can be redeveloped, that can be invested in.’*

*Waters had asked Greenspan to accompany her on a visit to South Central Los Angeles several weeks earlier. She didn’t think that Greenspan would want to go with her. This was the same man, after all, who as CEA chairman in 1974 had testified to Congress that ‘percentage-wise,’ the people who were most hurt by recession were Wall Street brokers. In a room filled with consumers and minorities, Greenspan had literally been booed, and following a public outcry, Greenspan later qualified his statement, saying, ‘Obviously the poor are suffering more.’*

*But the Greenspan of 1998 had accepted Water’s invitation, taking a walking tour of some of her district’s hardest hit areas. After they returned, Waters told a number of people that the chairman had been absolutely terrific on the trip - curious, caring.*

*‘And because of that,’ Waters concluded, ‘my mind is open, and I hope we can fashion a solution that works.’<sup>521</sup>*

He seems to be able to win others for his ventures:

*“... All the Fed governors were full-time and had their offices in the main building ... Greenspan made an effort to get to know each governor, seeking some out in their offices or inviting them to his office for unhurried but pointed discussion of the economy. He called this ‘bilateral schmoozing.’*

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<sup>520</sup> Woodward, 2001, p.178 ff.

<sup>521</sup> Woodward, 2001, p.193 ff.

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*Over about a week, he sounded out and convinced the governors to support a discount rate increase. A graceful listener, he nonetheless made it clear what he wanted. In private he could convey more of the urgency he felt.”<sup>522</sup>*

And:

*“The Board of Governors could change the discount rate only if at least 1 of the Fed’ 12 regional reserve banks requested it. Soon after the December 2 meeting, Corrigan convened the New York Fed’s board of directors and talked to them about a big rate cut. ... Some people voted for a plain vanilla incremental move first, but in a second vote he got a request from his board for a full 1 percent decrease.*

*Greenspan knew that he had some convincing to do to get the other governors to go along. He knew that the markets were becoming increasingly weak, and that a dramatic rate decrease - unthinkable two months earlier - would most likely not risk an inflation outburst. But he wanted unanimity, or at the least a clear majority. He talked to all of the governors, seeking their support.*

*On December 19, 1991, the Board of Governors voted 6 to 1 to lower the discount rate a full 1 percent to 3.5 percent, the lowest it had been since 1964.”<sup>523</sup>*

He seems to be able to and tries to motivate others:

*“Fighting inflation had to do with their credibility, Greenspan said. Doing a little cheerleading, he added that their credibility was building.*

*‘I think it is very important for the credibility of this committee to try to find some consensus,’ the chairman said*

*‘It would be very useful if we could find a means to accommodate each other in such a way that we can have a policy that we all can essentially go along with, though we all may not feel fully comfortable with it. So I’ve said my piece.’*

*After a long discussion, he won 10 to 2. He raised the fed funds rate 0.25 percent several days later”<sup>524</sup>*

And:

*“Turning to the on going negotiations between the Bush administration and the Democratic congressional leaders on a possible budget agreement to reduce the federal deficit,*

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<sup>522</sup> Woodward, 2001, p.32

<sup>523</sup> Woodward, 2001, p.86

<sup>524</sup> Woodward, 2001, p.59

Greenspan said, 'We are in a sense in economic - political policy turmoil. In that type of environment, it is crucial that there be some stable anchor in the economic system. It's clearly not going to be on the budget side; it has to be the central bank.' And with grammatical pedantry, he added, 'It's got to be we!'

In those circumstances, he urged a more modest view of what they could accomplish. 'I don't think it is in our power to either create a boom or prevent a recession,' he said 'I would suggest that perhaps the greatest positive force that we could add to this particular state of turmoil is not to be acting but to be perceived as providing a degree of stability,' he added, rounding out his argument against taking any action on interest rates at the present time. He proposed a directive that was asymmetric toward ease, to indicate that though the FOMC wasn't moving rates down now, they were in all likelihood headed in that direction.

The committee members voiced support for Greenspan's proposal, but they were all over the lot. Some of the bank presidents wanted to lower interest rates slightly, arguing that it might give a psychological boost and create confidence that they were acting to prevent a recession. 'I don't think I have asked for support in a large number of meetings going back a number of years,' Greenspan said. 'I'm not saying that people should violate what they think are their principles.

'But,' he continued, 'If you can find your way clear, this is the type of meeting in which it would be helpful if we had a very substantial consensus.'

He won the vote unanimously."<sup>525</sup>

And:

"By September it looked as if the Bush administration and the Democratic Congress had reached a budget agreement that would lower the deficit by \$500 billion over five years. 'There is a lot of 'real stuff' in here,' Greenspan told the FOMC approvingly on October 2, 1990, in reference to the pending budget deal. Though there was some inevitable smoke and mirrors in the numbers, he said, the agreement was substantial enough that 'we have to find some mechanism to ease.' He proposed 'an understanding that if the budget resolution passes we go down 0.25 percent.' It was unusual to tie an interest rate drop to action on the federal budget, though the impact of a real budget agreement could help. Less deficit spending would reduce inflationary expectations, so purchasers of bonds would be willing to accept lower interest rates. Lower long-term interest rates would enable businesses and consumers to borrow for less.

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<sup>525</sup> Woodward, 2001, p.69

*One of the bank presidents thought it would be bad precedent to tie an interest rate move directly to political developments.*

*'I don't see how we can get around not responding to a real budget agreement,' Greenspan replied. An agreement would mean that government spending was going to be cut significantly, which would slow the economy.*

*Some spoke up in support of the chairman's proposal. Martha Seger, a Fed governor generally known to favour lower rates, advocated an immediate 0.25 percent cut to be followed by another 0.25 percent cut as a 'reward to the boys on the Hill for doing the budget.'*

*Several voiced opposition and surprise, and some outright dissent. 'It is not a good precedent to have a linkup with fiscal policy,' said Warne Angell, a Fed governor from Kansas, in reference to the budget deal. 'I cannot support this policy action.' Other members of the committee were uncomfortable that inflationary pressures were too high to ease, while still others demanded that if the Fed moved, they publicly link the move to economic conditions and not to the budget agreement itself.*

*Greenspan held his ground. 'I would recommend,' he said, 'asymmetric toward ease, with the presumption that if the budget resolution passes both houses, there would be a 0.25 percent decline in the funds rate on Tuesday morning or Wednesday.' After that, he wanted to remain tilted toward further easing, but nothing other than the initial 0.25 percent drop would be done without consulting the other members of the FOMC on a telephone conference call.*

*Corrigan cautioned the chairman. 'I thought there was a lot of wisdom in the suggestion that several people made about not tying this unduly to the budget resolution in your public statements. The more I think about that, the more I think it would be embarrassing.'*

*'No,' Greenspan agreed, 'I would say that the budget agreement would not be a relevant reason to move were it not for the fact that there was a weak economy.' But he held firm. 'If the Congress passes the budget bill I would intend to implement the easing.'*

*Greenspan won somewhat narrowly, 7 to 4."<sup>526</sup>*

And:

*"...The largest buyer of RTC assets was Joe Robert, a Washington, D.C.-area entrepreneur. He spent about \$8 billion and ended up making a total \$3 billion profit. It was a practical application of old fashioned Ayn Rand capitalism in the money jungle. As Greenspan said in a private meeting, 'We endeavoured to galvanise on the greed of a number of people in the*

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<sup>526</sup> Woodward, 2001, p.69 ff.

*business, who when seeing their counterparts making big profits, dived in, and they virtually cleaned out our inventory.’ The real estate market was recovering.”<sup>527</sup>*

And:

*“... Yellen was torn despite her conviction that something different was going on with worker insecurity and productivity increases, she wished that Greenspan had proposed a rate hike. It would have been smart to go up 0.25 percent, she felt, and it was becoming difficult to be intellectually honest and not admit they needed to raise rates. The economy was likely growing too fast. Though sympathetic to Greenspan, she thought they were beginning to take too great a risk by not going up.*

*She finally said that if she had her druthers, she would vote to increase, but she added that she could support the chairman’s proposal to hold steady. The force of Greenspan’s personality and his strong desire carried her. She also realized that he was not asking them to never raise rates. He was saying only, Let’s hold off for now and then revisit the question in light of more information in six weeks. She felt enormous pressure not to oppose him, and as the votes were taken she realized the others felt it, too.*

*There was frequently a sharp contrast between the hawkish statements of some of the members and their dovish votes to go along with the chairman. If there had been a secret ballot, Yellen mused to herself, Greenspan almost certainly would have lost. If the members could write their votes on little pieces of paper and anonymously throw them in a hat, she calculated that there would probably be nine votes against the chairman. He would receive as few as three votes - his own, McDonough’s and Rivlin’s. Yellen, who considered herself a dove, realized she would have voted to raise rates in a secret ballot. But out in the open, she voted with Greenspan. That disturbed her.”<sup>528</sup>*

And:

*“...The next morning Meyer read a front –page story in ‘The Wall Street Journal’. The headline read, in part: ‘How Hard Mr. Meyer Tries Not to Move the Markets; Why He Failed Yesterday.’ He was slightly sick, but no one at the Fed said much to him.*

*Shortly thereafter Greenspan invited Meyer down to his office. Let’s just talk about the economy, the chairman proposed, and the Fed’s interest rate decisions.*

*They talked about the forces on the economy and the data they had. Meyer confessed that he was on the edge and was struggling. His own forecast and those of many other private*

<sup>527</sup> Woodward, 2001, p.74

<sup>528</sup> Woodward, 2001, p.176 ff.

*forecasters showed repeatedly that the economy should slow down, and it hadn't. All the forecasts expected inflation to pick up, and it hadn't. ...*

*Let me tell you what I'm thinking about, Greenspan said. This is why I'm not concerned. He went over the disaggregated data on productivity in more detail. The world and the economy were changing. It was their job to figure out how and why.*

*They were two of the best economists in the country, and they could talk, and they did-for a long time.*

*Meyer was impressed. It had been a wonderful discussion. The chairman wasn't asking for his vote or even his support. He realized that Greenspan had a particular vulnerability. Tradition dictated that the chairman couldn't be on the losing side of a vote. Meyer thought that the chairman was entitled to know, in advance, where members were when they walked into the FOMC meetings. If he himself were going to vote against the chairman, he would warn him. When he walked into the meetings, Meyer felt he had already made a commitment. He didn't care how convincing anybody else was. He might say, You've changed my mind, but you haven't changed my vote. If so, then he'd walk out of the room and tell the chairman, Sorry, next meeting you don't have me anymore.*

*Because of the deference shown the chairman, Meyer realized that Greenspan went into FOMC meetings with a bunch of votes stuffed in his pocket. If Meyer wanted to change interest rate policy, he would have to change the chairman's mind first."<sup>529</sup>*

*"He is widely credited, along with Treasury Secretary Robert Rubin, at turning Bill Clinton into a fiscal conservative after he arrived in Washington."<sup>530</sup>*

#### A.4.4.iv Loyalty

*"Greenspan preferred a more subtle approach. ... The argument should be: Remember that these people who want money have long memories. If you shut off credit to a customer who has been a good customer for a number of years because you're a little nervous, the customer will remember that. Think of the longer-term interests and the customer relationships. ..."<sup>531</sup>*

*"... Several hours later, at a special early morning meeting, the Board of Governors voted to raise the discount rate 0.5 per cent. The vote was 6 to 0.*

<sup>529</sup> Woodward, 2001, p.183 ff.

<sup>530</sup> [http://news.bbc.co.uk/1/hi/business/business\\_basics/178569.stm](http://news.bbc.co.uk/1/hi/business/business_basics/178569.stm)

<sup>531</sup> Woodward, 2001, p.41

*Greenspan knew Jim Baker was not going to be pleased. Bush was behind 7 points in the polls, and the economy was a growing issue in the campaign. Greenspan and Baker had been friends for 12 years, and Greenspan owed Baker a lot – in some respects, no less than the Fed chairmanship. Greenspan also respected and admired Baker for his political and social skills. He often said that if he were ever in serious legal trouble, he would hire Baker as his attorney in a heartbeat.*

*Greenspan believed that Baker deserved to be told about the rate increase. He decided to go over to see Baker to break the news before it was announced.”<sup>532</sup>*

Others being loyal to Greenspan. The following quote shows the loyalty of the other FOMC members toward Greenspan:

*“Warne Angell, a Fed governor from Kansas who had a regular Sunday afternoon tennis game with Greenspan, was concerned that during the first three months of 1991 Greenspan had pushed hard, maybe too hard, for lower rates. Angell, a small, scrappy, outspoken banker and farmer, was concerned that the rapid interest rate cuts were converging with the question of whether Greenspan would be reappointed by President Bush to another four-year term as chairman. Greenspan’s term expired on August 11, and in Angel’s view the Bush administration was engaged in a dangerous, unseemly game of dangling the reappointment and suggestively tying it to lower interest rates.*

*On April 10, The ‘Wall Street Journal’ ran a story quoting the White House spokesman saying that Greenspan had done ‘a fine job,’ but that Bush hadn’t yet made any decisions on reappointment-and, by the way, the president and his economic advisers wanted lower interest rates.*

*The day after the ‘Journal’ story, Angell had a long phone conversation with Greenspan. Angell was a strong supporter of Greenspan’s, but he thought it was important to have more collegial discussions at the FOMC and among the Board of Governors. Even more careful listening and consensus building was essential.*

*Greenspan told Angell that they had to decide whether to lower rates even more but insisted that he was unsure and open to hearing what all of the others might think.*

*Angell said that he too was open about what to do.*

*The next morning, April 12, Greenspan convened an early conference call of the FOMC, some time before 8:30 a.m. ...*

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<sup>532</sup> Woodward, 2001, p.52 ff.

*They could either do nothing, Greenspan continued, or they could do what he proposed – a 0.5 percent cut in the discount rate and a 0.25 percent cut in the fed funds rate. ‘I’d be curious to get people’s views,’ he said. He then called on Corrigan, his vice chair.*

*‘I, for one,’ Corrigan said, ‘would favour a 0.5 - point discount rate cut and a 0.25 - point funds rate reduction.’*

*Like clockwork, Angell thought.*

*Next, three bank presidents spoke in full support of the proposal. Bang, bang, bang - in lockstep. All of a sudden, it looked like a railroad job to Angell. Five yes votes for the rate decrease, even though the day before Greenspan had talked about openness and listening.*

*‘I’m very interested in what I’m hearing,’ Angell said when his turn came. He proceeded slowly. ‘I guess I’m going to express caution and a real preference not to move,’ he said. He noted that the last six months of rate cuts were in anticipation of causing the very CPI drop that they were witnessing. Now to cut rates again on the announcement made little sense and was slightly disconcerting. ‘I may indeed be in a minority,’ he said.*

*Several bank presidents and governors immediately chimed in, agreeing with Angell and voicing reluctance and reservations. It sounded as if Greenspan had no more than the five initial votes. Angell was even more astonished.*

*‘So, gentlemen,’ Greenspan finally said, ‘what I hear at this particular stage is a mixed view or willingness to do perhaps a 0.25 point.’ Rather than summarise his own embarrassing position or call for a vote that he might lose, Greenspan simply adjourned the conference call, asking the governors to stay on the line.*

*With the governors alone on the line, he again made a strong case for a discount rate cut.*

*Angell couldn’t believe it. He said he thought there was no support for cutting the discount rate, either. The other governors agreed with Angell.*

*Afterward, Angell thought Greenspan had made a significant mistake. Failing to take a vote in the FOMC conference call, which would make a public record of the decision, only exposed the Fed to further suspicions that it was a cloistered, remote financial priesthood trying to prop up the bond market and protect the investments of the rich - the kind of argument made in William Greider’s 1987 best-selling book on the Volcker Fed, ‘Secrets of the Temple’. In addition, the law specified that the Fed keep a record of any ‘action and the reasons underlying the action’ and report those to Congress annually. Re-election of a proposal by the chairman surely merited recording, but a summary of the April 12 conversation did not appear in the Fed’s annual report to Congress for 1991.*

*Some of the other governors believed that the April 12 conference call was more an informational conversation than a formal meeting of the FOMC, and Greenspan didn't like to take formal votes on conference calls. But Greenspan realised he may have made a mistake in trying to move impulsively on the basis of one CPI drop.*

*On the most sensitive issue of whether there was any connection between Greenspan's efforts to rush for lower rates and the pending reappointment decision, Angell decided he had too much respect for Greenspan to even think about it. At the same time, he knew that the temptation to make deals was always there.*

*Angell was often an extreme voice for tight money on the FOMC. He was not afraid to dissent from the majority, and he enjoyed standing apart from the others, playing what he called 'the polar role.' He thought that his positions broadened the debate within the committee and gave Greenspan more room to work. At the same time, Angell felt that he actually had more influence at the FOMC when he voted with Greenspan's majority than when he dissented. When he voted with the majority, Angell felt, it was because Greenspan was able to create a consensus that was broad enough to accommodate his views.*

*During their regular tennis matches, Greenspan and Angell often talked shop, though their discussions were seldom very long. Greenspan thought of Angell as a straight shooter - a bit quirky, maybe, but someone who didn't prevaricate or mislead. At one point as Greenspan's reappointment was up in the air, the two sat up in an alcove at Greenspan's private tennis club in suburban Virginia after a match and had another talk.*

*'Alan,' Angell said, 'I want you to know how proud I am to be serving in the Greenspan Fed. I know that in terms of achieving what I want to achieve, you are the instrument of doing it. 'I don't want to do anything that lessens the chances of your reappointment. I don't want to do anything that makes it more difficult for you during this period.'*

*It was a subtle circling of the wagons around the chairman.*

*On April 18, 'The Washington Post' ran a front-page story quoting three Fed bank presidents, Corrigan of New York, Lee Hoskins of Cleveland and Robert Black of Richmond, disavowing on the record that there had been any revolt against Greenspan. They all insisted that Greenspan's authority was fully intact.*

*Less than two weeks later, on April 30, Greenspan unilaterally lowered rates 0.25 percent to 5.75 per cent. He convened a conference call of the FOMC to explain his action. Auto sales and consumer spending were still off, he said, and several other economic indicators were down as well. 'In my judgment the inflationary pressures are easing very considerably,' he said. No one questioned or challenged him.*

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*He had done more than simply assert control. To those inside the Fed, he had proved it.”<sup>533</sup>*

And:

*“In New York, Felix Rohatyn, perhaps the city’s best known investment banker, had been closely watching the first two and a half years of the Clinton era. An ardent Democrat and outspoken liberal who had been briefly considered as Clinton’s treasury secretary, he believed that the president was not getting the full story on the economy. Rohatyn, 67, a managing partner at Lazard Frères Co., was the grandson of a member of the Vienna stock exchange. He had immigrated to the United States during World War II and had a European manner, polished and engaging behind a pair of thick glasses. He cultivated wide connections in the international investment banking community. In the 1970s, he was tapped by the governor of New York to head the Municipal Assistance Corporation, which had rescued New York City from near bankruptcy.*

*Rohatyn knew CEOs who had reengineered their businesses and were passionately convinced that the American economy could grow at a faster rate than the old model of 2.5 percent a year without inflation. He had written articles sounding this theme for ‘The Wall Street Journal’ and the ‘New York Review of Books’. He spoke with Erskine Bowles, the White House deputy chief of staff and a former North Carolina Investment banker. A golfing buddy of the president’s, Bowles urged Clinton to meet with Rohatyn and a group of CEOs before going on vacation that summer.*

*And five CEOs - Paul Allaire of Xerox, Dana Mead of Teneco, George David of United Technologies, Bernard Schwartz of Loral and Paul O’Neil of Alcoa.*

*Bowles, Laura Tyson, the new head of the National Economic Council in the White House, and Treasury Secretary Rubin also attended.*

*The president ran the meeting as one CEO after another described how they had restructured their businesses. They delivered a single message on the economy: Greenspan was going to slow it down, and he didn’t need to. Higher growth without inflation was possible. The old perceived wisdom did not apply to a new emerging economy dominated by firms that were leaner and better organised.*

*Rohatyn said he was absolutely certain. He believed that markets at times did not work and government had to be more interventionist, more ‘can do’. The low rate of economic growth was not enough to meet the social and public investment needs of the country. The opportunity for a new, pro-growth policy was at hand.*

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<sup>533</sup> Woodward, 2001, p.78 ff.

*Rohatyn left the meeting feeling that the president, Bowles and Tyson were sympathetic.*

*Rubin had sat silently, listening, taking notes.*

*Rohatyn and his wife, Elizabeth, had two adjoining weekend houses in Southampton on Long Island, New York. Greenspan and his steady date, NBC television correspondent Andrea Mitchell, visited one weekend that summer.*

*'I hear you're not worried about inflation,' Greenspan asked Rohatyn as the two strolled in the garden.*

*No, Rohatyn said emphatically, he just believed the economy could grow faster than 2.5 percent a year without inflation.*

*Okay, Greenspan said noncommittally.”<sup>534</sup>*

#### A.4.4.v Trust, reliability and integrity

The fact that he wants to make sure that no-one would know about their conversation regarding the possibility of him taking over as Chairman of the Fed can be taken as a sign that he is an integer and trustworthy person:

*“... One day in the spring the Bakers invited Greenspan, who headed a private business consulting firm in New York City, to fly to Washington to meet with them at Jim Baker's house in Northwest Washington.*

*They had one question. Would Greenspan be available?*

*If it's not going to be Paul, Greenspan replied, I would accept.*

*The president was weighing his options, Jim Baker said. They wanted just to make sure that if they needed him, he was there.*

*'If you need me, I will be there,' Greenspan said.-le wanted assurances that the very existence of the meeting, and certainly the topic, would not be revealed. It would be devastating if it got out that they were thinking of replacing Volcker. very damaging, he said. The financial markets were really quite unstable.*

*Howard Baker said that discussion of the Fed chairmanship was on the president's agenda during the next several days, but that it might take time to sort it all out. They pledged secrecy.”<sup>535</sup>*

<sup>534</sup> Woodward, 2001, p.149 ff.

<sup>535</sup> Woodward, 2001, p.21

*“... Greenspan felt that it was crucial to maintain both the Fed’s credibility and his own credibility as an inflation fighter. He did not want to see the unwinding of the Volcker era, when runaway inflation had been effectively slain.*

*With the discount rate move, Greenspan felt he had put a stamp on his general philosophy of not allowing inflation to take hold - And as he wanted, he had done it earlier rather than later. ... ”<sup>536</sup>*

Due to his skills, knowledge and performance he soon received high-profile clients. Also, the following quote shows that he is cautious and does not seem to be over confident with the results of his own work:

*“After forming Townsend-Greenspan, Greenspan’s skill with numbers and data soon had him advising the chief executive officers of major corporations. He became particularly attuned to addressing the anxieties of the person at the top who wanted to know what was going to happen. Yet even when providing his forecasts for high paying clients, Greenspan’s natural precision and doubt stayed with him. He said often that the future is unknowable, and he did not overstate his conclusions. He spoke in terms of most likely outcomes and probabilities.”<sup>537</sup>*

And:

*“... On Sunday, White House Chief of Staff Leon Panetta was on ‘Meet the Press’ and was asked if the Fed should reduce interest rates.*

*‘Well,’ Panetta said, ‘It would be nice to get whatever kind of cooperation we can get to get this economy going.’ Growth was hovering at an anaemic 2 percent.*

*Asked if he was jawboning the Fed to get rates lower, Panetta replied with his overeager grin, ‘Is that what it’s called?’*

*Treasury Secretary Bob Rubin was furious. The administration had been so disciplined, avoiding any public or even private effort to pressure Greenspan. The soft landing would occur because the administration and Greenspan didn’t let the economy get out of control. It wasn’t science, Rubin knew, but he believed Greenspan was making a series of highly informed judgments - the best they had. White House pressure to cut rates could have the opposite impact and actually prevent a rate cut.*

...

*Rubin immediately went public with a rebuke for Panetta and an assurance, almost an apology, to Greenspan. Of Panetta, Rubin said in a public statement, I can assure you that his*

<sup>536</sup> Woodward, 2001, p.33

<sup>537</sup> Woodward, 2001, p.34

*comments were not intended to signal any shift. Our policy with regard to the Federal Reserve has been consistent from the beginning of the administration - and that is not to comment.' He even added that Panetta had been 'careless in how he responded.'*

*President Clinton seemed to agree with Rubin. It appeared that Panetta was briefly put in the doghouse - an unusual place for the White House chief of staff, who was supposed to be managing the executive branch on behalf of the president. Rubin and others knew that a side of Clinton agreed with Panetta, but in terms of politics and public perception, Clinton's relationship with Greenspan and the Fed was more important than his relationship with his chief of staff. ...*

*Greenspan took Panetta's comment 'as a cheap and ineffective hit'. Rubin had it right, not because of their growing friendship, but because Rubin saw it was in the president's self-interest to avoid political meddling with the Fed. What was interesting, Greenspan realised, was that his relation with the administration were so good that the White House was more concerned about the perception of Panetta's comments than Greenspan was himself."<sup>538</sup>*

And:

*"On Tuesday, May 5, Greenspan went to the Oval Office to see the president. It was the fourth month of Whitewater Independent Council Kenneth Starr's investigation of Clinton's relationship with former White House Intern Monica Lewinsky. There was a sense that the investigations were closing in.*

*Greenspan had not visited the president formally for 16 months, and Clinton's economic team wanted Clinton to bask a little in the positive domestic economic news. In any case, an hour with Greenspan was always educational and worthwhile, and on this occasion it would be a momentary diversion from the president's mounting personal and legal troubles. Rubin, Summers and Sperling also attended."<sup>539</sup>*

And:

*"... Yet his biggest role may lie in the future. No one knows whether the economic expansion will continue for years or whether it is at its summit. But some day, in some form, the economic boom will end. Someone, an authoritative voice, is going to have to tell us when the party is over. Someone with credibility will have to explain and answer questions. What*

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<sup>538</sup> Woodward, 2001, p.147 ff.

<sup>539</sup> Woodward, 2001, p.195

*happened? Why? What might it mean? Who is responsible? Someone will have to propose a course of action and outline what has to be done.’<sup>540</sup>*

Taking responsibility and not backing down even in crisis situations:

*“A month later, over the weekend of October 17 - 18, Manuel Johnson-now elevated to the Vice chairmanship of the Board of Governors – -spent hours and hours attempting to find a buyer for the largest savings and loan in the United States, the American Savings & Loan Association. American Savings had secretly informed the Fed they were going to have to announce bankruptcy on Monday unless someone took them over. ...*

*The price of bonds moves the opposite of interest rates, so as interest rates had soared, the value of their bonds had sunk to the point that the thrift was effectively broke.*

*Johnson was unable to find a buyer, he reported unhappily to Greenspan. To make matters worse, the stock market had been down on Friday. It looked as though it was going to be a rough Monday.*

*Greenspan took a professorial approach. Great, if a buyer can be found, but if not, market forces will work it out.*

*On Monday, October 19, the stock market was down in the morning but then started back somewhat. Greenspan decided to stick to his schedule, which included a speech at the American Bankers Association convention in Dallas the next morning. By the time he left for the airport, the stock market was back down again, by several hundred points, and the situation looked awful. He debated whether to back out and stay in Washington, but he concluded that cancelling the speech would convey a message of crisis. At mid-afternoon, he boarded American Airlines flight #567 bound for Dallas.*

*The plane had no phone, so when he got off in Dallas he immediately inquired about the market.*

*‘It was down five oh eight,’ replied Jim Stull, a senior Vice president at the Dallas Fed who had come to meet him.*

*‘Wow, what a terrific rally!’ Greenspan said. The market was down only 5.08 points. Whew! No, 508.*

*That meant close to \$1 trillion in wealth - more than 20 percent of the stock market’s total value - was wiped out for the moment. ...*

*Greenspan finally reached the Adolphus Hotel in downtown Dallas and held a conference call with Johnson and the others. Some were saying, Well, let’s wait and see.*

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<sup>540</sup> Woodward, 2001, p.229

*'You people have not been around long enough,' Greenspan said. He had been around, around money, around the markets, around people on the verge or in panic, for decades. 'This is a shock to the system,' he said. 'You don't assume it's going to wear off.' Greenspan knew that a crash of that magnitude was like a gunshot to the entire financial system. The full pain would not be felt right away. There would be ripple effects for a long time, a possible convulsion in the economy and in society. Someone on the phone said that everything might be okay 'You know what just happened?' Greenspan said. 'We just destroyed a huge chunk of wealth in this country.' ...*

*Greenspan said he would stay and give his speech the next morning. It was important not to appear panicky, he said. ...*

*It was a crisis, a financial Vietnam, but it had happened over a single day, not years, creating the potential for a major economic catastrophe. If the stock market continued down, the system - the relationships, rules and theology that Greenspan had built into his head and that had become a part of who he was - would break apart....”<sup>541</sup>*

And:

*“In a conference call that morning, Greenspan and his colleagues debated what the Fed should say publicly. The Fed lawyers had come up with a lengthy statement.*

*Goddammit, Corrigan said emphatically, we don't need a scholarly, legalistic thing. We've just got to say in one sentence, We're going to put a lot of money in the market. In part, they had a plumbing problem. Everyone needed to be assured they could get money - in other words, liquidity or credit. The Fed also had to address the confidence problem, he urged. They had to show their hand early. ...*

*They finally agreed on a one-sentence statement. Greenspan issued it in his name at 8:41 a.m., before the markets opened:*

*'The Federal Reserve, consistent with its responsibilities as the nation's central bank, affirmed today its readiness to serve as a source of liquidity to support the economic and financial system.’”<sup>542</sup> ...*

*“Soon the Dow itself rallied, ending the day up 102 points, a record gain. ...*

*But the greatest achievement, Baker believed, was Greenspan's one-line press release. The Congress could have met in extraordinary session and passed legislation without hearings to reassure the markets, but that would have had little impact. The president could have suspended trading or acted somehow, but that too would have done little. There was only one*

<sup>541</sup> Woodward, 2001, p.36 ff.

<sup>542</sup> Woodward, 2001, p.40

*part of the government that could have turned it around, and that was the Fed offering unlimited credit. In the end, money talked - or, at least, the Fed's openly stated willingness to provide it.*

*Treasury Secretary Jim Baker had flown back to the United States on the Concorde. He too thought the one-sentence statement was brilliant. They were lucky to have Greenspan at the Fed. Baker was not sure that Volcker would have been so quick to act.”<sup>543</sup>*

And:

*“A widely reported poll of New York money managers in April and a ‘Wall Street Journal’ poll of financial decision makers in May both found that about 75 percent of the people on Wall Street favoured Greenspan’s reappointment.”<sup>544</sup>*

He seems to stand by his people even if he disagrees with their actions:

*“Greenspan wasn’t happy. McDonough had lent the good name of the Fed to the resolution. The meeting could have been held in any other boardroom in New York. The Fed didn’t have to play matchmaker. Greenspan thought that McDonough had exercised bad judgment, rushed in a little too fast. The probability that LTCM’s collapse would unravel the entire world financial system was significantly less than 50 percent, but that was still enough to be worrisome. And so, to a certain extent, Greenspan was of two minds. But now it was over, and Greenspan felt it was his job to rally around the Federal Reserve System, and the best way to do that was to back McDonough.”<sup>545</sup> ... “Two days later, on Thursday morning, October 1, the House Banking Committee called Greenspan and McDonough to testify about LTCM and the Fed’s role in what had occurred.*

*Greenspan was slightly uncomfortable. Congress’s tacit acceptance of the Fed’s interest rate decisions was critical, and he was reluctant to expend any of his capital on a side issue. But when the House committee had tried to haul McDonough up alone in the immediate aftermath of the LTCM rescue, Greenspan said he thought it would be appropriate to invite him also.*

*When Greenspan and McDonough took their assigned seats at the witness table, there was an empty chair between them. Sit here, Greenspan said quietly, pointing to the empty chair and motioning McDonough over to sit by his side.*

*McDonough was touched by Greenspan’s show of solidarity. He was convinced that an LTCM collapse would have triggered a severe world financial crisis that could have turned*

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<sup>543</sup> Woodward, 2001, p.46

<sup>544</sup> Woodward, 2001, p.82

<sup>545</sup> Woodward, 2001, p.206

*into a world economic crisis, possibly even a recession in the United States. Greenspan seemed less certain of that, but the chairman was making it clear publicly that there was not a sliver of difference between him and McDonough. ...*

*Leach called the hearing to a close after four and a half hours. 'I sense the chairman of the Federal Reserve Board is losing his voice but not his mind' he said.*

*McDonough thought that the shelling was probably the most unpleasant experience Greenspan had ever had before Congress. Thank you for your support, he told Greenspan later. Greenspan could have easily left him high and dry.”<sup>546</sup>*

He prefers to be honest even in difficult situations:

*“On his way to Washington, Greenspan considered his options. The entire system could crumble. It could happen in 10minutes.*

*He particularly didn't want anyone from the Fed to sound like Herbert Hoover, president in 1929, declaring with historically memorable stupidity after Black Tuesday that everything was terrific. Everything wasn't terrific. They were in a real crisis. Failure to acknowledge even this simple state of reality would cause the knowledgeable players in the market to think the Fed ought to go to the loony bin.”<sup>547</sup>*

And:

*“Although his words are almost unbearably opaque, he appears to be doing something rare - telling the truth. The very act of thinking, the strain in his wrinkled forehead, can be seen in the video footage of him before the microphone. At times it seems painful. But the public has rewarded his caution, reflection and the results with their confidence. That he is the unelected steward of the economy is simply accepted. Yet even with increased public exposure, somehow the mystery deepens.”<sup>548</sup>*

Greenspan sees a need to be and to seem integer. In order to do he sees the need for a common policy among the people he works with:

*“Fighting inflation had to do with their credibility, Greenspan said. Doing a little cheerleading, he added that their credibility was building.*

*'I think it is very important for the credibility of this committee to try to find some consensus,' the chairman said*

<sup>546</sup> Woodward, 2001, p.207

<sup>547</sup> Woodward, 2001, p.42

<sup>548</sup> Woodward, 2001, p.228

*'It would be very useful if we could find a means to accommodate each other in such a way that we can have a policy that we all can essentially go along with, though we all may not feel fully comfortable with it. So I've said my piece.'*

*After a long discussion, he won 10 to 2. He raised the fed funds rate 0.25 percent several days later*"<sup>549</sup>

He lets others know that they can count on him and approach him at any time:

*"'Listen, you don't need to write letters about your concerns,' Greenspan said to Senator Connie Mack, the Florida Republican who had just joined the banking committee. 'Just pick up the phone and we'll talk about it.' Mack, 50, whose grandfather of the same name was the famous owner and manager of the Philadelphia Athletics baseball team, had been a Florida banker. He had recently signed a joint letter to Greenspan from some Republican senators complaining about interest rates. Greenspan made it clear he was available to Mack at any time. When they did talk, Greenspan said, 'Why don't you and I just plan to talk more often.'* Mack was soon speaking to Greenspan whenever he wanted, and the two had breakfast or lunch a couple of times a year. *He found Greenspan's I'm-on-your-side tone reassuring and his willingness to listen and confer about the economy nearly endless.*"<sup>550</sup>

Due to his abilities and professionalism he is able to convince others of his views:

*"At the end of March,. Dr. Laurence H. Meyer had been a governor at the Fed for nine months. ... With a Ph D. from MIT, he had founded Laurence H. Meyer and Associates, a successful economic forecasting business in St. LOUIS, in the early 1980s. Working with economic advisers in the Reagan, Bush and Clinton administrations, he had been known for the accuracy of his economic forecasts. For a single three-year period in the 1990s, his forecast for the growth of the consumer price index was off by only 0.1 percent. He had received many national awards, including the Annual Forecast Award from a panel of blue chip economists as the nation's most accurate forecaster in 1993 and in 1996. For Meyer, a data-driven intellectual, forecasting was all sophisticated, rigorous economic modelling.*

...

*But Meyer was struggling now in the spring of 1997. All of his training, all of the models and concepts that had worked with such precision, told him that higher economic growth and lower unemployment would soon trigger a rapid increase of dangerous inflation. He wasn't*

<sup>549</sup> Woodward, 2001, p.59

<sup>550</sup> Woodward, 2001, p.66 ff.

*buying Greenspan's argument about productivity growth. He thought it bordered on fantasy. But he had not dissented thus far.*

*At the FOMC meeting on Tuesday, March 25, 1997, ... Though there was no sign of inflation, Meyer and some of the others wondered whether it was time to increase rates, perhaps by a large amount, a pre-emptive move similar to what the Fed had done in 1994.*

*Speaking first, Greenspan had proposed a 0.25 percent increase, arguing that such a move would be the other side of the prudence that had led them not to raise rates the previous fall.*

*Brilliant, Meyer thought. Here Greenspan, the poster boy for the New Economy, was playing the old economy, inflation hawk card. The chairman was keeping a foot in both camps, both the New Economy/higher productivity school and the old economy/inflation fighting school. It was a masterly management of the process, Meyer concluded. He voted with the chairman.*

*From the dovish side, Alice Rivlin believed that the economy was beginning to heat up. The stock market was feeding economic growth and perhaps getting the economy into inflationary trouble. Maybe they should at least look vigilant. The Fed hadn't acted in more than a year. A 0.25 percent hike wouldn't make any real difference one way or the other. It wouldn't hurt, she figured, aware of the irony of the situation - which was that inflation was actually going down. But she voted with the chairman. So did all the other committee members.”<sup>551</sup>*

He seems to admit when he made a mistake:

*“... The White House had come up with too many unqualified candidates. Greenspan had wanted them to nominate Ted Truman, the Fed's controversial, brilliant and bombastic international chief, as a governor, but they had refused.*

*Ferguson was nominated and soon confirmed.*

*About a month later, Greenspan called Sperling. ‘I Just want you to know Roger Ferguson is terrific,’ he said. ‘You were right. This guy is outstanding.’ Ferguson knew a great deal about the check payment system, technology, computers, productivity.”<sup>552</sup>*

The following quote is an example of his reliability:

*“Of all the important people in Clinton's life, nearly all - including himself - had let him down or not lived up to their full promise. Hillary had failed to deliver health care, although she had stood by him during the Lewinsky scandal. Vice President Gore, though loyal, had not yet emerged as a vibrant successor. Dick Morris, the chief political strategist for the successful 1996 re-election campaign, had been forced out in a scandal and then turned on Clinton and*

<sup>551</sup> Woodward, 2001, p.183 ff.

<sup>552</sup> Woodward, 2001, p.188

written an informative but tattletale book. George Stephanopoulos, Clinton's young and trusted adviser, had also written a book full of inside stories of anguished decision making and private fury. Democratic leaders in the Senate and House had come and gone. Staff had come and gone. Rubin, the shining light of the cabinet, was gone. Clinton's vaunted campaign fund-raisers had brought scandal and doubt on the presidency. Clinton himself had not lived up to his own grand governing vision.

*Greenspan alone had stood and improved his ground.*"<sup>553</sup>

#### A.4.4.vi Others

He seems to appreciate the importance of understanding the structural properties of groups, societies and the likes.:

*"... The new chairman also felt a mild amount of tension because he didn't want to screw up the formal operating procedure, of the FOMC. Before his official arrival at the Fed, Greenspan had met with senior staff members to learn the ropes, to make sure he got it right. A Fed chairman was a symbol, but he was also the discussion group leader. He had to know his stuff. ..."*<sup>554</sup>

And:

*"So much of his life is interior - inside his mind, with its private calculations and thoughts. Greenspan considers himself an introvert. His demeanour suggests that he hates expediency, prefers detachment and rigor. Yet he has a tendency also toward the political calculation and manipulation that have become necessary for longevity in Washington. He plays the game skilfully."*<sup>555</sup>

And: Here is another example regarding the existence of structural properties, which may be unwritten rules:

*"In one of his first discussions with Greenspan, Meyer had asked if there were any guidelines for giving public speeches. No formal rules, Greenspan said, but there were informal rules. Rule one: Don't do speeches. The chairman noted that no one followed rule one. So rule two: Don't say anything that will move markets."*<sup>556</sup>

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<sup>553</sup> Woodward, 2001, p.222 ff.

<sup>554</sup> Woodward, 2001, p.30

<sup>555</sup> Woodward, 2001, p.226 ff.

<sup>556</sup> Woodward, 2001, p.184

#### A.4.5 Others

Give and take. It seems that following Greenspan's re-appointment he put in a good word for President Bush at a strategically important time – before the presidential elections:

*“... Toward the end of his testimony, Greenspan put in a good word for Bush. ‘He’s very knowledgeable about these issues,’ Greenspan said. ‘A lot of times you think you’re giving him new information, and he’s heard it 10 times before, and he often knows a good deal more about certain issues than you do.’*

*A story on the front page of the business section of ‘The New York Times’ the next morning clearly understood what Greenspan was trying to accomplish: ‘Mr. Greenspan’s forecast and the tone of his comments could hardly have been sweeter music to a President gearing up for a run for re-election in 1992.’<sup>557</sup>*

Greenspan seems to be able to recognise structural properties:

*“When Clinton unveiled his economic plan at his first State of the Union address to a Joint Session of Congress on February 17, Greenspan was there in the gallery, in seat A6 - right between Hillary Clinton and Tipper Gore, the Vice president’s wife, on full display as the national television cameras swung over to get reaction. The First Lady had invited him to sit in the box for the speech, and Greenspan had accepted on the basis that protocol dictated he not refuse her invitation.”<sup>558</sup>*

And:

*“‘I know that if you really want to get something done that you go one-on-one privately but never publicly,’ he once said - privately, not publicly.”<sup>559</sup>*

J. Yellen was sympathetic to Greenspan and helped him out:

*“... Greenspan hypothesized at one point to colleagues within the Fed about the ‘traumatised worker’ - someone who felt job insecurity in the changing economy and so was accepting smaller wage increases. He had talked with business leaders who said their workers were not agitating and were fearful that their skills might not be marketable if they were forced to change jobs.*

<sup>557</sup> Woodward, 2001, p.84 ff.

<sup>558</sup> Woodward, 2001, p.100

<sup>559</sup> Woodward, 2001, p.67

*Janet Yellen was sympathetic to Greenspan's hypothesis, and she was deeply bothered that the Fed staff seemed too set in their ways to engage alternative views of how the economy was functioning. Each staff forecast before the FOMC meetings insisted that inflation was about to take off unless interest rates increased substantially. Greenspan appeared to be going it alone.*

*Yellen went to work. ...*

*Yellen thought Greenspan spoke a language different from what was taught in graduate school. Outsiders and non-economists thought his Fed speak was the language of economics, but the chairman's language was highly idiosyncratic, often not fully grounded in the data. He was prone to take leaps. At the FOMC, Yellen noticed that the Ph.D.s on the committee, or some members of the staff, would be nearly rolling their eyes as the chairman voiced his views about how the economy might be changing. Nobody challenged him or dared say anything, but it weakened his hold on the committee.*

*Yellen told Greenspan that she might be able to find a theoretical underpinning for his job insecurity thesis. ...*

*Working with data, graphs and some 14 complex equations, she drafted a 13-page memo that she sent Greenspan on June 10, 1996. It concluded that since workers had been paid more in the earlier years of the 1990s, the higher pay had induced them to feel greater attachment to their jobs and to be more productive both in terms of quitting less and in terms of working harder to keep the jobs they had.*

*'Following our recent discussion concerning labour market issues,' Yellen's cover letter began, 'I thought I would try to codify my own thinking about the theoretical links among job insecurity, the pressure of wages, prices and profit margins, and the natural rate of unemployment. The attached note outlines the theory that I consider relevant. It shows why an increase in job insecurity due to changing technology or other factors could induce a permanent decline in the natural rate of unemployment. ...'*

*Greenspan thanked Yellen. The memo was an economically conventional way of saying what he wanted to say. He had it circulated to the FOMC.*<sup>560</sup>

The following quote shows the importance of understanding structural properties, which in this case is the fact that within the settings of formal meetings individuals do not address each other by their first names, even if they know each other for a long time. Secondly, the

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<sup>560</sup> Woodward, 2001, p.168 ff.

following shows the importance of social relationships and that they can be more important than official positions within hierarchies:

*“In October, Slifman and Corrado invited some key economists from the Commerce Department and the Bureau of Labour Statistics over to the Fed for a working session on their productivity findings.*

*Rivlin got word of the meeting and decided to attend, but she had to hunt for the small conference room in the nether regions of the Fed building, where the meeting was being held. When she arrived, she was surprised to see the chairman himself - coat off, sleeves rolled up - in heated debate with about 10 government productivity experts. She sat down.*

*‘Well, no, Alan,’ Bob Parker, now chief statistician at the Bureau of Economic Analysis at Commerce, was saying, ‘you’re not right about that.’ Nobody at the Fed called him ‘Alan’ in meetings. Rivlin realised that these were Greenspan’s people and that position in the hierarchy meant nothing. Information and analysis alone counted. Memories and relationships seemed deeply embedded – Greenspan’s equivalent of the playing fields of early adulthood and labour statistics debates from the 1970s and 1980s. Greenspan had known Parker for 25 years.*

*Again calling the chairman ‘Alan,’ Parker insisted that it was hard to measure productivity in non-manufacturing businesses. Coming at the issue from the profitability of businesses, as Greenspan wanted to, was insufficient, Parker said. What about the discrepancies in translating the statistics of income into wage, salary and profit components?*

*Later in the meeting, Rivlin called Greenspan ‘Mr. Chairman’ after she had made a point to the group. Parker was embarrassed and wanted to crawl under his chair. ...*<sup>561</sup>

He seems to have a good sense of humour:

*“At one point in his testimony, Rubin said that Deutsche Bank AG, the largest bank in Europe, had set aside \$777 million in reserves for its losses in Asia.*

*‘\$773,’ Greenspan interjected.*

*‘\$773,’ Rubin corrected. ‘I apologize.’ After a moment’s reconsideration, he added, ‘Well, I’m not so sure. I bet you a nickel.’*

*‘You’re on,’ Greenspan said.*

*‘We have got a nickel, even-odds bet,’ Rubin said playfully.*

*‘There is a slight side bet between the chairman and me, which he will probably win.’*

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<sup>561</sup> Woodward, 2001, p.177 ff.

*An aide soon whispered in Greenspan's ear. Rubin had been right. Greenspan pulled out a \$20 bill from his wallet and handed it to Rubin.”<sup>562</sup>*

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<sup>562</sup> Woodward, 2001, p.194