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WARREN E. BUFFETT, CHAIRMAN

October 7, 2003

Mr. Paul E. Steiger
Managing Editor
The Wall Street Journal
200 Liberty Street
New York, NY 10281

Dear Mr. Steiger:

The Wall Street Journal's August 15th article about me, based on an interview that I gave one of your reporters about my association with Arnold Schwarzenegger's campaign, was seriously misleading in a way that caused far-reaching reverberations. For reasons that I will explain, I could not write to you about this matter until now.

The article, featured on *The Journal's* front page, carried a headline and opened with paragraphs devoted entirely to California taxes. That's fair enough: taxes were certain to be a major issue in the campaign.

In talking with your reporter, Joe Hallinan, I began by asking him to record the interview. He replied that his taping equipment was not working. Therefore, in verifying with him that what I'm about to recount is correct, you will have to rely on his notes. I do not expect you to find discrepancies, given that he asked me several times to repeat the key figures that I presented.

What I said in respect to property taxes was very specific. I gave him an example of *three* houses, two in Laguna Beach and one in Omaha. The first Laguna Beach house is a property that I bought in the early 1970s. It has a current market value of about \$4 million and, because of the

limitations embodied in Proposition 13, carried taxes of only \$2,264 in 2003 vs. \$2,241 in 2002. The second house, located just in back of the first, is one that I purchased in the mid-90s. It has a market value of about \$2 million and, simply because I bought it later than the first, carried taxes of \$12,002 in 2003 vs. \$11,877 in 2002. I pointed out to Joe that these figures mean that the tax rate on the second house – same neighborhood, same owner, same ability to pay – is roughly ten times the rate on the first house.

I then referenced my house in Omaha, which I believe to be worth about \$500,000 (though it's assessed at \$690,000). Taxes on it were \$14,401 in 2003 and \$12,481 in 2002.

I was satisfied, based on our conversation, that Joe understood the two highly important but uncomplicated points my examples spoke to:

1. Residential property taxes in California are wildly capricious, tied as they are to the date of purchase rather than the value of the property or financial circumstances of the owner.
2. In the case of properties that a homeowner has held for a long time, residential property tax rates in Omaha are far higher than in California.

In the interview, I then said, as the story reported: "This property-tax illustration, that tells you, you can draw certain conclusions from that." Give me an F for syntax. Even so, this comment clearly applied to *both* observations regarding property taxes.

Yet there was no mention in the story of my second house in Laguna nor *any* mention of the tax inequities within California. Instead, the headline, the body of the story and quote made it appear as if I was only talking about the difference in taxes between Omaha and California.

It's difficult to understand this omission. Imagine that a reporter were to ask a candidate about a fiscal problem and received this reply: "Spending is up 10%, taxes are down 10% -- you can draw certain conclusions from that." If the reporter quoted only the tax change portion of the sentence, and

followed it with “you can draw certain conclusions from that,” readers would be seriously misled.

The severe failings in the article were compounded a few days later when *The Journal's* editorial page made the mistake of relying on the accuracy and completeness of *The Journal's* reporting. Though the editorial would have undoubtedly made many of the same points it did had the writer read a complete account of my views, his analysis would have had to be at least somewhat different if he had been aware of both points I had made. For example, the statement in the editorial's second paragraph that “no doubt the non-billionaires in Chico will appreciate Mr. Buffett's generosity with their cash flow” would make no sense if the writer had understood that I was criticizing the inequities *within* California. My sympathies are clearly with the “non-billionaire” family purchasing a \$300,000 house in Chico today that faces real estate taxes materially higher than those borne by this non-resident billionaire on his \$4 million house in Laguna. This family, because of Proposition 13, has been selected to subsidize me.

The Journal's editorial page was not the only medium that drew incorrect and incomplete inferences from the story. The Omaha-Laguna comparison rocketed around the world accompanied by commentary that I was suggesting raising property taxes in California, with no mention at all that I was arguing they needed to be made more equitable.

When I subsequently explained to *The Journal's* Kevin Helliker just how misleading the story had been, our office received an email from Joe Hallinan suggesting that I “might be interested in doing another interview with us, expanding on some of his earlier points.” It is ironic that the reporter mentioned “expanding” my views when he – or his editor – were the ones who had truncated my views in such a misleading and unfair manner.

Another interview, of course, would have compounded the problem, since – short of *The Journal* forthrightly acknowledging its original error – it would have appeared that I was scrambling to revise my statement to limit political damage to Arnold. This is the same point, of course, that has deterred me from writing you, or otherwise talking about the tax issue, until we reached a date when my doing that would not influence the election.

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Because *The Journal's* mischaracterization of my views has achieved such widespread publicity, I am planning to post this letter for an extended period on the Berkshire Hathaway website.

Sincerely,

Warren E. Buffett