

A Conversation with Charlie Munger and Michigan Ross Dean Scott DeRue - 12/20/17

SCOTT DERUE: So, what I thought we would do this evening for our conversation is really just explore your life and many of the moments in your life that have shaped how you think and what you've been able to accomplish. And I'll ask a number of questions and at some point, hopefully, we'll have time to open it up and ask some of the questions that you all are interested in as well. So far, we're two for two in Bitcoin, so that gives you a sense of what's on people's minds.

But I'd like to go back to your early childhood in Omaha, Nebraska. So, you were raised in Omaha and what are some of the moments in your experience in Omaha that you really find memorable that shaped you and who you are today and how you think? Can you talk a little bit about growing up in Omaha?

MUNGER: Well, yes, I really liked Omaha. It was a size where I knew a lot of the people who mattered and what they did. So I wasn't lost in a great metropolis and I was very fortunate in my nature of my parents, my parents' friends and I was fortunate in the public schools I attended were pretty remarkable by the standards of the time. And of course, most of my schooling was in the Great Depression, but that means I'm one of the very few people that's still alive who deeply remembers the Great Depression. And that's been very helpful to me.

It was so extreme that people like you have just no idea what the hell it was like. There was just nobody that had any money. The rich people didn't have any money. People would come and beg for a meal at the door, and we had a hobo jungle not very far from my grandfather's house. And I was forbidden to walk through it, which meant I walked through it all the time. And I was safer in that hobo jungle in the depths of the '30s when people were starving, practically, than I am walking around my own neighborhood now in Los Angeles at night. The world has changed and you'd think the crime would be less, but the crime was pretty low in those days.

So, anyway, I had a very unusual bunch of experiences to go through civilization and various phases including the greatest recession. Well, I say, it's one of the greatest recessions and 600 years in the English-speaking world. It was really something and it was very interesting to watch, and also to watch it fixed.

It was fixed by the accidental Keynesianism of World War II—very interesting. And Hitler had fixed the Great Depression in Germany by the deliberate Keynesianism. But he wasn't doing to stimulate the economy. He wanted to get even with all the people he hated, but he borrowed all this money and created all these armaments. Hitler's Germany by 1939 was the strongest economic power in Europe but nobody else was close. And you wouldn't understand that as well as I do if you hadn't lived through it. You just could see the place gaining traction more and more and more, and pretty soon it was fixed.

And, of course, that was, in those days there were all kinds of people. Most of my family for they believed in hard money based on gold and not much welfare and so on and so on. I was raised among fairly backward people by modern standards, but they were backward in kind of a self-reliant way that I think was helpful. I've never regretted that I wasn't raised in a more liberal establishment.

I had a liberal aunt. She was my mother's cousin and she was the second lady Dean at the University of Chicago. And she'd done her thesis on the emissions in the coal mines. And, of course, she was a

screaming Leftist. I would be a screaming Leftist the way I observed the way the coal miners of yesteryear were treated. You couldn't be a human being with any decency in you without feeling that it was deeply improper to have the misery that great and have it manipulated for the benefit of the mine owners and so forth.

But, she sent me all these left-wing things, books—one every Christmas. And I always thought she was a little nuts. Which shows that if sometimes a very vivid extreme acts, you know, evidence misleads you on a deeper reality, you got to be a guard on that. Against that all your life. In fact, the whole trick in life is to get so that your own brain doesn't mislead you. And I have found that is just a lifelong fun game, and I can't remember a time I wasn't doing it.

I was not a prodigy or anything like that, but I was a prodigy in having adult interests. I always wondered what worked and what didn't and why. And I could see that very eminent people that I loved and revered were nuts in some ways. And I would, if I will, I certainly liked Dr. Davis but he's a little nutty in one way and I'm not going to be that way like that. So I was very judgmental and I think that helped me. It also helped me that I kept changing my judgments as I learned more and more facts came in. And that created lifelong habits that were very, very useful.

Another thing that really helped me is, particularly, on my father's side of the family. My paternal grandfather was the only federal judge in Lincoln, Nebraska—the capital city of Nebraska. And he'd been there forever and he stayed there forever after that. I think when he left, he was the longest-serving federal judge in the country.

And he was a brilliant man and he'd risen from nothing. He was a child of two impoverished school teachers. And when he was raised in a little town in Nebraska, they gave him a nickel to go buy the meat and he'd go to the butcher shop and he would buy the parts of the animal nobody else would eat. And that's what two school teachers lived on in those days. And the very indignity of it bothered him so much that he just determined to get out of poverty and never go back. And he did. He got ahead like Abe Lincoln—educated himself in the lawyers' offices and so on. He had to leave college because he couldn't pay the tuition anymore.

But he educated himself and since he was utterly brilliant, it wasn't all that hard. And he had an attitude that was pretty damned extreme. I would say his attitude was "you have a moral duty to make yourself as unignorant and as unstupid as you possibly can". And that it was your, pretty much, your highest moral duty. Maybe taking care of your family came first, but in the ranks of moral obligations quasi-related, well, yeah, he was conventionally religious, so it may have been a religious duty to him. But, he really believed that rationality was a moral duty and he worked at it and he scorned people who didn't do it.

On the other hand, as a judge he started with the idea that "why would anybody rob a train" or whatever—a federal crime on those days-. And he was pretty hard on people who did it. And I noticed as he got older and older and older, he was willing to call a man a good man on easier terms than he started out with. And I think that was a correct development in my—by the way, when he relaxed a little, he was still pretty tough. But, he did relax a little, which I thought was appropriate.

But it was the influence by such people. And when the '30s came, one son-in-law was a musician. Of course, he couldn't make a living. So my grandfather—who didn't have that much money—sent him to Pharmacy School, carefully picking a profession that couldn't fail. And found him a bankrupt

pharmacy to buy and loaned him the money. And my uncle was soon prosperous and remained prosperous the rest of his life.

My other uncle had a bank in Stromsburg, Nebraska. But there were 968 people in Stromsburg and there were two national banks. And the capitalization of my uncle's bank was \$25,000. And, of course, he was a lovely man, but he was an optimist. And a banker should not be an optimist. And when they closed the banks in 1933, the bank examiners came in and they said "you can't reopen". And it was the only business he had. Well, Judge Munger saved his money and he had a lot of good first mortgages on homes occupied by teetotaling German butchers and people he'd carefully pitched. Of course, he never had to default.

I was in the right neighborhood. The people were sober and hard-working. And so what my grandfather did is take a third of his good mortgages, which is all he had and put them into the bank and took all the lousy assets out of the bank. So, he saved two out of three of his children and I thought it was a pretty good thing to do. And very shrewd the way he did. And he actually got most of his money back 10 or 15 years later out of all the lousy assets of the bank when World War II—and that was a good lesson.

On the other side, my grandfather on the other side, his main business had gone broke in 1922 with all the other wholesale dry goods houses. And what he did—his son-in-law, one of them went broke—he cut his house in half and moved that family in. And the other family, the guy was an honors graduate of the Harvard School of Architecture and he was very prosperous in the '20s in Omaha and had a wonderful life. And the '30s came the total building permits in Omaha were would sometimes be \$25,000 a month and that was for furnace repairs or something. There was just no work. None. Zero.

So he moved to California and he lived for several years and he got, finally, he got the County of Los Angeles to hire this great Harvard architect and he got \$108.08 a month after deductions. And they had him do drafting work but they classified him as a laundry man to save money. And he could actually rent a house for \$25 and feed himself and drive an old car. He could live on \$109 a month. Amazing how poor everybody was.

And what happened to that grandfather, so along came the FHA and they had a competitive Civil Service Examination. And he was a very brilliant man. Of course, he was first in the exam and that made him a chief architect for the FHA in Los Angeles where he spent the rest of his life. But, I watched all this family coping with all as difficulty and I'll say this. It sounds awful but they weren't all that unhappy. You can cope pretty well because you get used to it. That's a nice thing about the human condition. I mean, you get to be my age you got a lot of horrible things to get used to. It's just one new indignity all the time. A friend of mine says a good day when you're old is when you wake up in the morning and nothing new hurts.

So anyway, that's my experience in Omaha. But the background of all these people was they were educated and civilized and generous and decent and a lot of them had good senses of humor. And it was a pretty damn good place to grow up in, and my memory is of being surrounded by a lot of very fine people. And I think the whole thing was privileged. I look at my background as absolutely privileged. I'm proud of being an Omaha boy. I sometimes use the old saying, "They got the boy out of Omaha, but they never got the Omaha out of the boy."

And so, all those old-fashioned values: family comes first, be in a position so you can help others when troubles come, prudent sense, a moral duty to be reasonable is more important than anything else.

More important than being rich, more important than being important, an absolute moral duty because none of my intelligent relatives suffered terribly because they didn't advance higher.

SCOTT DERUE: Right, now, one of the things I'm fascinated by is, I mean, this was in the '20s and '30s and the level of detail that you recall about their experiences and how that's shaping your experiences now.

MUNGER: Well I'm trying to give people a flavor of something that nobody else can remember.

SCOTT DERUE: You're a student of the people that you're experiencing. So, you grew up in Omaha, Nebraska, you find yourself in Ann Arbor, Michigan. How does that happen?

MUNGER: Very simple. I wanted to go to Stanford.

And my father said to me, "Charlie,"—I was the only son to two sisters—he says, "I've got two daughters. They're educated right after you. I don't have unlimited money," he says, "I will send you to Stanford if it really means a great deal to you. But I'd rather you pick a university in the Midwest much better than mine,"—which was the University of Nebraska—and that was obviously going to be Michigan. What I was going to say, "Well screw you. Send me to Stanford"? Well, I didn't say that. I went to Michigan.

SCOTT DERUE: So you come to Michigan...

MUNGER: I have never regretted that at all. At Stanford, people came to Stanford in the '30s with their string of polo ponies, and it was a very upscale fraternity/sorority culture. I used to call it the co-educational Princeton of the West and people loved it and so forth. But literally, you go to Stanford with a string of polo ponies? I should say I'm bringing back to you, young people, a time you can't remember. Who was it you ever know in college that came with a string of polo ponies?

SCOTT DERUE: Not very many people.

MUNGER: Now they go they'd be in the ROTC, but they had their own string of polo ponies. You could win better if you have your own string.

SCOTT DERUE: So you come to Michigan and you study Math for a year.

MUNGER: Yes, but I don't get credit for that. When I was young, I could get an A in any mathematics course without doing any work at all. And so I always took math because it meant that I could, literally, I never did any problem sets, I just did the math. And so, I should not get credit as some budding mathematician. I was choosing what for me was the easiest way to think about what I want to do instead of what somebody else wanted me to do.

SCOTT DERUE: Come to find out it ended up being a subject that has, I think, paid some dividends.

MUNGER: Oh, hugely! But this will interest you in this world where people have all these algorithms and computer science and fancy math and so forth. Neither Warren nor I have ever used any fancy math in business and neither did Ben Graham (who taught Warren). Everything I've ever done in

business could be done with the simplest algebra and geometry, and addition, multiplication, and so forth. I never used Calculus for any practical work in my whole damn life and I was a perfect whiz at it when they taught it to me. And by the way, since I never touched Calculus, not once after I was 19 years old, I've lost it. The symbols would mystify me. But, I think you'll find that if you really know the basic stuff, it's enormously useful and only a very few people are ever going to need any Calculus.

SCOTT DERUE: So you study Math at Michigan. Then the war comes calling.

MUNGER: Yeah.

SCOTT DERUE: You moved to California and you study Meteorology.

MUNGER: Well that was because I was too dumb to do what I should have done. With my background, I should have gone to the naval ROTC because I hated infantry ROTC—which I had done four years in high school—rising to be second lieutenant, which is a very low rank. And of course, I was about five feet two. I got my growth late and so I was not your ideal of a manly soldier in high school.

SCOTT DERUE: So when you went to Harvard Law, why Law?

MUNGER: Well my grandfather and father had been lawyers and I knew I didn't want to do everything else. It's very simple. I didn't want to be a doctor. I didn't want all the blood and misery and so forth and the repetitive work. I knew I didn't want to go to the bottom of a big organization and crawl my way up. I'm a natural contrarian and that was not going to work for me. And I found that people could tell me when I thought they were idiots and that is not a way to rise in a big organization. And so, I couldn't do that. And so now I am left with Law.

I admired my father and grandfather and a good life for them, so I naturally drifted into it. I think people are still going to law school for that reason. It's the least bad of options considering their interests and ability. I guess, now, people will go to business school; some of whom might have gone to law school. I get many of the people in this room, I think, are going to go to business school because it's the least bad of their options. And all I can say is that that's the way it worked for me and it'll probably work out for you, too.

SCOTT DERUE: And it worked out okay.

MUNGER: It worked out okay. I had to leave the profession. It was a dumb profession for me.

SCOTT DERUE: So, that's actually what I want to ask. So you moved to California. You actually start a law firm and then practice law for some period of time.

MUNGER: I had no alternative. I had an army of children almost immediately. I painted myself into quite a corner.

SCOTT DERUE: Yeah, so, zero choice is pretty powerful.

MUNGER: Yes, yes, of course.

SCOTT DERUE: So you practice law and then you leave law in the firm that you helped found and move over to investments. Help us understand that.

MUNGER: Well, but that sounds miraculous. In fact, it was rather interesting. I probably got paid about \$350,000 in my first 13 years of law practice—total. And I had an army of children and no capital to start with, and when I chose this alternative career I had over \$300,000 in liquid instruments. So I had 10 years of living expenses. So I was not a courageous, venturesome, admirable man. I was a cautious little squirrel saving up more nuts than I really needed and not going very deep into my pile of nuts. And so, it wasn't that courageous and I kept one foot in the law firm while I tried my capitalist career. But as soon as the capitalist career succeeded, I intended to lift that second foot because I recognized that the potential of law practice, as I saw it then, I didn't anticipate the boom that came to the big firms. I just saw it as being more difficult. I wanted more independence than I thought I was going to have as a lawyer. I hated sending other people invoices and needing money from richer people. I thought it was undignified. I wanted my own money not because I loved ease or social prestige. I wanted the independence.

SCOTT DERUE: So you founded Wheeler, Munger and Company. So that's the investment firm.

MUNGER: Yes and I went and I had five real estate projects. I did both side-by-side for a few years and in a very few years, I had \$3m - \$4m dollars.

SCOTT DERUE: And for a number of years, you outperformed the market 2x, 3x. And so why did you, then, leave Wheeler, Munger and Company and then move to, now, what you're doing?

MUNGER: Well, I had \$3m - \$4m dollars, which was a lot of money then. And I also knew how to handle that \$3m or \$4m dollars very well by that time. And so I knew I didn't need to get fees and overrides from other investors. And I found that when you got into things like the '74 or '75 crunch—which was the worst since the '30s—I didn't suffer. I knew everything was going to work out, but the quoted prices of these things really went down to ridiculous levels and some of my investors I knew were suffering, you know, they needed the money. And of course, I have enough of a fiduciary gene that that pained me greatly. And so I said, "it's like my grandfather", they asked him how he felt when my aunt divorced my uncle, and he said "I feel just the way I did when they lanced my carbuncle". And, that's the way. I had a carbuncle. My fiduciary gene was giving me pain and so, the hell I lanced the carbuncle and I just lived on my own money. nNo fees, no overrides, no salaries—just seemed more manly to do and I knew it would work.

SCOTT DERUE: And so, at what point did you meet Warren and...

MUNGER: 1959.

SCOTT DERUE: And so, where did Berkshire Hathaway come from in terms of this partnership that you all have now had for decades?

MUNGER: Well Warren had been taught by Ben Graham to buy things for less than they were worth no matter how lousy the business was. You can't imagine a more lousy business than New England textile mills because textile is a congealed electricity. And the electricity rates in New England were about 60% higher than TVA rates. So it was absolute, inevitable, certain liquidation. Now Warren

should have known better than to buy into a totally doomed enterprise, but it was so damned cheap. You could get it at a big discount from liquidating value. So he bought a big giant piece of the business, but the business was going to die.

So, the only way to go forward from there was to wring enough money out of this declining textile business to have more money than he paid to get in and use it to buy something else. That's a very indirect way to proceed and I would not recommend it to any of you. Just because we did some dumb thing that worked you don't have to repeat our path. And of course, we eventually learned not to buy these cigar butts when they were cheap and do these painful liquidations, and instead buy better businesses. That's the main secret of Berkshire.

The reason that Berkshire has been successful as a big conglomerate—more successful than any other big conglomerate so far as I know—any other big conglomerate in the world, the reason it's been successful is we try and buy things that aren't going to require much managerial talent at headquarters. Everybody else thinks they've got a lot of managerial talent at headquarters and that's a lot of hubris.

If the business is lousy enough and it gets a wonderful manager—the business has a lousy reputation and the manager has a good reputation—it's the reputation of the business that's going to remain intact. You can't fix these really lousy businesses. You can wring the money out, whatever comes in liquidation and do something else with it, but most lousy businesses can't be fixed.

SCOTT DERUE: But at the time, Warren, that's what he was doing and so...

MUNGER: Yes.

SCOTT DERUE: How did you convince him?

MUNGER: I helped him. He bought a windmill company in a little town in Nebraska and Warren didn't know anything about running a windmill company. He bought it because it was cheap. He said, "What do you? Why can't you fix my windmill company? Who can you get to help me?" I said, "I've got just the man for you". And so one of my old colleagues from a transformer business who was an accountant, I said, "He will fix your windmill company". Warren was desperate so he just hired him on the spot. And Harry walked in the first day, in this little town with this big collection of windmills and so forth, and a whistle blew and the whole plant stopped for 15 minutes. And he said, "What the hell is this"? They said, "Well, it's a respect for whenever the town has a funeral, we always blow this whistle and stop for 15 minutes." And Harry said, "that'll be the last time."

And he just approached everything that way. And of course, nothing he did as he cut away all of the fat that he didn't need, and then he found there were certain parts where we're the sole supply. And he raised all the price of those parts. You can see what a business genius we are.

SCOTT DERUE: So how did you convince Warren to stop buying the bad apples and start buying the good apples?

MUNGER: Warren, he gave me credit for that, but he was going to learn it anyway. He just made so much money in this other stuff that he'd been taught by Ben Graham, that it was hard for him to quit when he was just coining money. But he saw the point and you couldn't scale that business, and it was

kind of scroungy and unpleasant when you're firing people. Who in the hell wants to do that? So we just run the money out and bought better businesses. And we've been doing it ever since.

Coming to business not as business school graduates, but as people who had owned portfolios or securities—we thought like capitalists because we were always in the shareholder mindset. A lot of people running their business just think like careerists. And believe me, you've got to think like a careerist to some extent if you're in a career. But it also helps to look at the business strategy problems as though you're an owner. And so my advice to you is you never want to get to be a careerist so much that you don't see it from the owner's point of view.

That's what General Motors did. They had a bunch of careerists and an owner would have seen immediately that situation was hopeless. And they just romped through it with a lot of denial and stupidity and pomposity. And of course, they went bankrupt. The mightiest company in the world went bankrupt, and none of those hotshot executives thought like an owner. They would have seen that it was hopeless.

SCOTT DERUE: So Charlie, one of the things I've always been fascinated about...

MUNGER: At least it was hopeless the way they were handling it.

SCOTT DERUE: Well, with Berkshire in the way that you manage both headquarters and the businesses that you own, you are putting talent in place who think like shareholders, not careerists. So how do—when you're buying a business or bringing talent into an existing business—how do you evaluate talent to see, are they going to think more like a shareholder as opposed to a careerist?

MUNGER: Private equity will frequently buy a business where the founder is going to leave, and then they go out on our talent to run it. That is a tough way to make a buck and I don't like it. We generally buy with the talent in place. Now, maybe some guy is in the number two place and we put him in the number one place. But we very seldom—I can't think of any place where we bought something and put somebody in after Harry Bottle. And no, we don't do that and it's amazing how long we have some of those people stay.

Warren always says we can't teach the new dogs the old tricks.

SCOTT DERUE: What's the implication of not being able to teach the old dogs new tricks or new tricks to old dogs, when if we look at what's happening in business today, what we see is exactly...

MUNGER: We can't teach the old tricks to the young dogs. That's what we found, so we keep the old dog in place.

SCOTT DERUE: But, that's not the norm, right? I mean, if we look around...

MUNGER: No, it's the norm in life. Our practices may not be the norm, but, normally, it's very hard to get the—you got a wise old dog, to get a young dog so they could match him. That's hard. By definition he's survived a big culling process.

SCOTT DERUE: Sure.

MUNGER: I mean, he's unique and he's got a record to prove it. And, by the way, everybody thinks you can judge people by an interview and, of course, you know who you like and who you don't like. But everybody overestimates how much you can tell in prediction by meeting somebody. We all like to think that we have that capacity. But it's a vastly stupid type of overconfidence. The paper record has about three times the predictive value of your impression in an interview. And of course we're buying great paper records. It's so simple.

SCOTT DERUE: But it's fascinating to me if we look around business, generally, the movement of people across firms and there's always new dogs. And you've taken a contrarian position to that and managed Berkshire differently.

MUNGER: Well, of course we're still hiring young dogs into these businesses, but it's amazing how much of the record of Berkshire has come from the old dogs who are in the business when we buy them. You can't believe how good those people have been. There's one huge exception in the new dog department. I almost despise the business of executive search because I find that they really want to sell you the best that's available even if there's no damn good. And I don't like that. But the best single expense that Berkshire ever had is we paid an executive recruiting firm to find us Ajit Jain to come into our little tiny insurance operation who hadn't had any experience in insurance at all.

He was an honors graduate of a main technical institute in India. He was a very smart man, but he came in and created our whole reinsurance—it's the only big business we created from scratch and Ajit did the whole damn thing. Of course, he talked with Warren every night and so it was like father and son. This is a very Confucian company and that was unbelievable.

So we hired an executive recruiter who brings us an India that had no experience at all insurance. He talks about it with the old man every night and it's now, by far, the biggest reinsurance business in the world. And it's been a gold mine. There's at least \$60 billion dollars in Berkshire of net worth that Ajit has created that we would not have created without him.

SCOTT DERUE: Wow.

MUNGER: And the value is way more than \$60 billion. I mean, there's that much as just extra liquid net worth, but the value of the business is way more than \$60 billion.

SCOTT DERUE: Wow. So Charlie, I'm going to turn to a few questions from the audience as we start to wrap up. Probably half my questions here are about Bitcoin and cryptocurrency.

MUNGER: I could answer those very quickly. I think it's perfectly asinine to even pause to think about them.

You know it's one thing to think that gold has some marvelous store of value because man has no way of inventing more gold or getting it very easily. So it has the advantage of rarity. Believe me, man is capable of somehow creating more Bitcoin. They tell you they're not going to do it, but they mean they're not going to do it unless they want to. That's what they mean when they say they're not going to do it. If they tell you they have rules and they can't do it, don't believe them. When there's enough incentive, bad things will happen.

It's bad people, crazy bubble, bad idea, luring people into the concept of easy wealth without much insight or work. That's the last thing on earth you should think about. If it worked, it would be bad for you because you would try and do it again. It's totally insane.

And by the way, I've just laid out a wonderful life lesson for you. Give a whole lot of things a wide berth. They don't exist, you know: crooks, crazies, egomaniacs, people full of resentment, people full of self-pity, people who feel like victims. There's a whole lot of things that aren't going to work for you. Figure out what they are and avoid them like the plague. And one of them is Bitcoin.

And the worst thing that would happen is if you won, because then you'd do it again. It's total insanity, and it's so easy to simplify life if all of these things are beneath you. People are promoting Bitcoin—I don't want them to know my address. They're not my kind of people.

SCOTT DERUE: So Charlie, what I hear you saying is you're not going to be investing in Bitcoin. Is that fair?

MUNGER: I think it's fair.

SCOTT DERUE: So let me move to a similarly, maybe controversial topic. I don't know if you've read the news recently, but there's a lot of tax policy conversation going on, both here in California and nationally as well. What're your thoughts on where this ends up in terms of the tax policy?

MUNGER: I think we will get a tax bill. I think they will squeak it through and they'll make whatever adjustments they have to to get the last few votes. I don't think it's a bit crazy to give this extra two \$2,000 a year to all those people who make \$70,000 a year and have a lot of children. That strikes me as a—it's good politics and probably good policy. I also do not think it is crazy to reduce the corporate income tax on the C corporation. And if you look at the world, a lot of the places that had worked best—including Singapore and so forth—have that policy. And may even have good macroeconomic consequences.

A lot of the people who are screaming about it and are so sure it won't work—they may not be right. It may actually work pretty well. It causes the capital values of the companies to come up and there's a wealth effect from the increased market value of all the companies. Everybody recognizes there's an effect, but some people say it's small and some people say it's going to be large. And I'll tell you what they all have in common—none of them know. It is not totally inconceivable that it will work pretty well. And with so much of the world doing well with similar tax policy—and of course, the Democrats go berserk on this subject, but I think they're wrong. It may actually help them. I'm not sure it'll work. It may not, but it's not totally crazy.

SCOTT DERUE: Well, it reminds me of a piece of advice that you've offered and given to me which is people often have a point of view and the danger in having that point of view is you start to assume with certainty that you're right.

MUNGER: Absolutely, totally crazy.

SCOTT DERUE: And I think what your point of view is you need to have a point of view...

MUNGER: Now just a minute. Here's a very important subject that I've been thinking about all my life. You ask me for my opinion. I don't really know how well it's going to work. I don't think anybody else does either. I think it'll work to some extent, but how much, I don't know. Now, is it unfair? Well the corporations are, by and large, owned by a bunch of charitable endowments and by a bunch of pension plans. And the whole world is going into the world where they're trying to have the business interests of the company support their huge pension obligations as it get bigger all the time.

China is trying to do exactly what the Republicans are. China wants to have the main businesses in China owned more by the pension plans and the stocks to do well. I don't think China's crazy to have that. I don't think the Republicans are crazy either. It could work pretty well and it's not just some evil thing that people are cooking up. It's a disagreement between people, and the both sides who have violent hatreds and contempt for the other side—they're wrong. It's a disagreement on policy that ought to be civilized.

When I see Congress on my television set and the degree of hatred they have, utter contempt, I mean, really, serious way more than as usual. It's evil to hate that much. It's a mistake to hate that much. That much hatred will turn—it's always been true, as anger comes in, reason leaves. It's a truism. So do you want to adopt a political point of view where you're angry all the time? If you do, welcome to the house of misery and pretty low worldly achievement, to boot. So if that's what you want, I found out how to do it; behave like those people you see on television. And both parties, by the way.

SCOTT DERUE: The other thing that's true, going back to one of your earlier comments, is the difference between a careerist mindset and a service or shareholder mindset where in politics, we have the emergence of a careerist mindset that is shaping how people behave because they're trying to survive.

MUNGER: Not only that, they have a groupthink. Just as the Moonies go crazy because they hang around together, so do our politicians. Do you want to go crazy? Is that what your ambition in life? You start with some advantage. Just make yourself a violently believing politician on either side and you'll turn your brain into cabbage. You only got one brain. Why would you want to turn it into a cabbage?

SCOTT DERUE: So Charlie, I've got a question here what's the new amazing technology that you're most excited about?

MUNGER: Well, I tend to not get very excited. I think that technology changes the world, and that reminds me of another thing. If I ask you what was the biggest, the worst single mistake in the work of Adam Smith? I don't see everybody big eyes lighting up. The biggest mistake in the work of Adam Smith, he was totally right about markets and so on and the advantages of trade, division of labor and so forth. What he missed was how much the steady advance of technology would advance wealth and standards of living.

He—in the 1700s—was living not too much differently from the way they lived in the Roman Empire. And he just missed it. But in fact there had been huge improvements in technology but he just missed it. He wasn't very technically-minded and it was really stupid. And now I ask you a harder question. What was the worst mistake David Ricardo made? I'll bet the Dean can't answer this question. I'm not going to ask you to try.

I'll tell you the answer. David Ricardo, he got the first-order consequences of trade perfectly right and it was not an obvious insight and it was a great achievement. But he didn't think about the second-order consequences. He wasn't mathematical enough to see and he wasn't mathematical to think what would happen in one country had way higher living standards than another. And like Adam Smith, he missed the main issue. In a place like the United States, if you have an advanced nation and some other nation which is numerous, but the people, if anything, are better on average than yours in terms of their innate quality—which I think is roughly true of China—and they're in poverty, living in caves, and they're caught in a Malthusian trap, and you got an advanced economy and you suddenly go into free trade?

What is going to happen is Ricardo proved it: both sides are going to live better, right? But, the people here that are assimilating all the great economies of the world, they're going to go up way faster. So you go up 2% a year and they go up 12%, and pretty soon they're the dominant nation in the world and you aren't. Well, are you really better off? Well, the answer is no and Ricardo never figured out any of that stuff. And so, I'm telling you that so that you can fix your inadequate knowledge of Ricardo.

But one of the interesting problems of that is you can't understand Ricardo properly and thinking about the United States vis-a-vis free trade with China without thinking about the Tragedy of the Commons. Because if we had the only nation in the world, except for China, we could say we won't trade with them, we'll just leave them in their damned agricultural poverty. And we'll just, you know, and we could probably have done that. Well, the whole rest of the world will trade with them. They're going to rise anyway.

So we don't have any power to hold back the rise of China by not trading with them, so we had to do what we did. And once you do that now, they're going to be a greater power than we are, and the two of us are going to be big enough so we can accomplish pretty gently anything we both want to do. So we have to be friendly with China. So you can imagine how I like Donald Trump complaining about these Chinese. It's really stupid. It's a compulsory friendship. It's a compulsory friendship. You'd be out of your mind to do anything else. Why wouldn't you want to have an intimate, friendly relationship with the biggest other power in the whole damn world? Particularly when they got a bunch of atom bombs?

It's just nutty. We have no alternative but to do this and when that happens, you're going to get a certain amount of misery from the people who are competing with the Chinese as they rise from poverty with trade and so forth. That was inevitable. It's not the fault of a bunch of evil Republicans who don't love the poor. That is just total balderdash. It just happened and we didn't have all these choices.

SCOTT DERUE: So, Charlie, in wrapping up, we've got I don't know, roughly 250 to 300 people in the room tonight and many of them looking at their futures, their careers, with many decades ahead of them...

MUNGER: I wish I had many decades. I'd trade some large numbers if I could just buy some more life expectancy.

SCOTT DERUE: As you look back on your life experience, what's the most important piece of advice that you would offer everyone in the room tonight as they look forward and into their futures?

MUNGER: Well, there are a few obvious ones; they're all ancient. Ben Franklin, marriage is just like the most important decision you have and not your business career. It'll do more for you—good or bad—than anything else and Ben Franklin had the best advice ever given on marriage. He said, "Keep your eyes wide open before marriage and half shut thereafter".

It's amazing how if you just get up every morning and keep plugging and have some discipline and keep learning, and it's amazing how it works out okay. And I don't think it's wise to have an ambition to be President of the United States or a billionaire or something like that because the odds are too much against you; much better to aim low. I did not intend to get rich. I just wanted to get independent; I just overshot.

And by the way, while you're clapping some of the overshooting was accidental. You can be very deserving and very intelligent, very disciplined, but there's also a factor of luck that comes into this thing. And the people who get the outcomes that seem extraordinary, they're the people who have discipline and intelligence and good virtue plus a hell of a lot of luck. Why wouldn't the world work like that?

So, you shouldn't give credit for the unusual. A lot of the people, a friend of mine said about a colleague of his in his fraternity, he says, "Old George was a duck sitting on a pond and they raised the level of the pond". There are a lot of people who just luck into the right place and rise, and then there are a lot of very eminent people who have many advantages and they've got one little flaw or one bit of bad luck and they they're mired in misery all their lives. But, that makes it interesting to have all this variation.

SCOTT DERUE: Charlie, on behalf of everyone here, thank you. Your wisdom, I often say, is an educational institution we not only can provide people with knowledge but the most important thing we can do is give them wisdom and judgment. And your comments, I know for me, and I expect for everyone in this room tonight, have added to our wisdom and our judgment, and also inspiring at the same time. Thank you very much.