

So, overall, I must join the previous witnesses from the GAO in saying that I am a little dubious of the representation DOD made this morning about its management program. The claim was made that program stretchouts are a thing of the past, yet over half the programs in previous SAR's are shown to be stretched by the December 1982 SAR. The claim was made that cost growth is being tamed, yet the claimed \$18 billion savings is at best less than \$2 billion. And twice as many SAR programs experienced fiscal year 1984 unit cost increases as experienced cost decreases—21 versus 11—over last year's projections for fiscal year 1984.

I would like to address, then, three points following these particular remarks. First of all, cost growth. Where does it come from? What is it? I think there was a great deal of confusion about that this morning back and forth, and I would refer you to page 11 of my prepared testimony. There is a graph that I have put together on the Hellfire missile showing what the total program cost was projected to be in 1975, when the program was activated at the DSARC II stages versus what the projected total program cost was in June 1982, and where the difference came.

If you look on the left-hand bar, you see that the lower block, 100, designates the real dollar cost of the program. The 45 represents how much of the program total—of 145—was going to be due to inflation.¹

That is what they projected in 1975. In June 1982, the 100 remained the same, the same real dollar cost to the basic program. But they also projected that inflation on that basic program would be 85, not 45. But the key cost growth—the growth that really kills program budgets—is in unplanned program changes. Whereas increased inflation on the basic program resulted in an extra 40 points beyond the 45 for inflation predicted in 1975, the net effect of unplanned program changes—in quantity, design, support needs, cost reestimates, and so on—was an additional 217 points on top of the original total program projection of 145.

What that translates into is massive program instability.

So I would say that the key to poor DOD projections of cost is that DOD does not figure, in its initial program cost projections, that programs are going to undergo substantial changes that are not planned at the point in time when the program is added to the DOD's acquisition agenda. That is the origin of our seeming inability to project realistically what the cost of the program will be.

Chairman ROTH. In other words, you are saying that program changes of the various types you enumerated is the principal factor, perhaps, in cost growth.

Mr. KUHN. It is the principal factor. You will note that there has been an increase in inflation—45 was projected originally; 85 is what they projected 7 years later.

Well, that is an increase which must be paid for, but I suspect the defense budget of the country could afford that.

What the budget cannot afford is the fact that we completely disregard the possibility of the extra 217 points above that.

Chairman ROTH. Let me ask you this question:

¹ See p. 145.