

All of the costs have been included in the new SAR figures. There was no attempt to hide anything. We did take credit for the projected reduction in inflation which is consistent. We certainly took the rap for having to revise the inflation numbers upward in previous SAR's in order to be consistent. I believe that we should be able to include a higher rate, without being accused of trying to hide something, and that we should also take credit for any reduction in inflation.

Chairman ROTH. Let me ask you a question. I believe last year was the first time the Pentagon has ever included a higher rate of inflation than the administration itself in its program estimate. Isn't that correct?

Mr. THAYER. That is correct. That is because we went through the process of getting a special dispensation, so to speak. I think we are the only executive agency that has that privilege, to use a real, more realistic higher rate of inflation.

Chairman ROTH. I think that is a plus factor.

Mr. THAYER. That was a management initiative on the part of the Department of Defense, which I cannot take credit for; I wasn't here at the time.

But it is certainly proof that some of these initiatives that you mentioned earlier, Mr. Chairman, are taking effect. The point is that regardless of whether or not we take full credit for the reductions or penalties for the reductions, we could put all of those reductions back into the totals and we still have the lowest cost growth reported in the December quarter SAR's since 1975 in dollar terms and the lowest since 1973 in percentage terms.

The message that we tried to get across and were not very successful in doing, is that the long time trend of increasing costs has been broken. The past is not necessarily the prologue for the future. To repeat myself, I believe the management initiatives and the acquisition improvement program is certainly beginning to work.

I would like to present some charts to the committee as a result of my assessing in the past few months, DOD's management structure in the weapons acquisition process.

I would like to discuss some of my initial impressions with you.

Overall, I think DOD is in fairly good organizational health. I know that very often when things go wrong in an organization, the tendency is to reorganize. I don't have any intention of attempting that in the near future, because it has been my experience in the past that reorganization is not nearly the answer it is touted to be unless the attitude goes along with it.

By that I mean if people really want to work together as a team, and if they really want to improve the efficiency with which they conduct their business affairs, then they will do it regardless of organization. So I don't have any magic organizational initiative that I would like to present to the committee at this time. I think the problems that have been highlighted in the press, by the critics of the Department of Defense of goldplating unrealistic cost projections, creative accounting, collusion among certain defense contractors, and so forth are overstated; however, I guess there are always cases that can be pointed to with justification where there is some element of truth.