

trol them. It seems there are just two methods to do that: One, by auditing programs to make sure that they are a fair price; and two, by market price competition.

Secretary Thayer mentioned a certain method of auditing called the should-cost approach. That was a method quite widely discussed and sometimes actually used about 12 to 15 years ago, and I suggest that it is still a very good method—if properly conducted.

Chairman ROTH. What did they call it again?

Mr. KUHN. It is the "should-cost" approach to costing. There are basically two approaches to costing: One is the "will-cost" and one is the "should-cost."

Chairman ROTH. Should-cost; all right.

Mr. KUHN. Should-costing is when you go into a detailed industrial engineering analysis of how much it should cost to produce a certain item. You have to get down to the nitty-gritty, the nuts and bolts: How long does it take to solder this joint, and how long does it take to do this or that. But that kind of analysis is prospectively possible. It is done all the time in civilian industry.

You get what they call a standard labor hour; how much should be produced in 1 hour by average production workers. Well, I have been informed by some eminent cost analysts in the Pentagon that in many cases, in our defense industry—and this is both in the major weapons programs and the spare parts programs and sub-assembly programs—the efficiency of our production lines is terrible. Some lines require anywhere from 2 or 3 times longer, up to 20 or more times longer, to produce something than the contractor himself projects should be necessary. Well, a rigorous should-cost audit would get down to the production line level and ferret out those facts. I think that is a very good approach. I specifically recommend in my statement that Congress mandate that the GAO set up a major should-cost team to go out and look at the various programs and see if, in fact, they are overpriced for what we are getting. DOD and the services also ought to institute such terms using this pricing approach. As I say, the method has been used in the past in DOD and the services for particular programs, and used successfully.

But by far the more important way of controlling costs is what, again, was referred to this morning, and that is competition; the market; the forces of the free market. It has to be, I think, thoroughgoing competition, not pseudocompetition. By thoroughgoing, I mean sealed bids submitted on a program on a continuing basis, not just one time and then the winner of that—

Chairman ROTH. Winner take all.

Mr. KUHN. Yes, winner take all, and then forever more he is the sole source. We should not fool ourselves and call programs "competitive" which had either one price competition or design competition at one point in time. We should not call those competitive programs because they are not. They involved competitions at one point, and thereafter, they do not.

Chairman ROTH. I think one of the most discouraging aspects of military procurement is what happened in the seventies. Competition went down 10 percent, I believe. There is no question in my mind that bona fide competition is probably the most effective means of reducing costs.