

In October of 1981, 1½ years ago, this committee emphasized that DOD had to do a better job of estimating the cost of weapons systems. We have made some progress in that area, and there is more to be made. I am going to continue to assure that we improve our ability to budget realistically. That is a first management principle.

The way we have been putting that principle into practice, in the budget is to plan for the most likely costs. Although we have always done some independent cost analysis, until recently, it was not that effective. But now, I believe that top management fully understands that we are going to put the responsibility on service secretaries and their people as well as our people at OSD to justify selection of any lower program estimate simply because it is lower. That would be supplied by an independent costing team.

We are going to develop the talents that it takes to improve our should-cost or budgeting for the most likely cost capability.

There is evidence that has already had some effect because we have added significant funding to outyear estimates in response to these independent cost analyses.

To come forward with higher estimates for example, in our planning programming and budgeting system, we have added \$2.9 billion for six systems in the fiscal 1984 budget. We have done a better job in budgeting for inflation, and we are going to continue to emphasize that. It hits major weapon programs harder than the rest of the Federal budget, and we have sought after and gotten special permission to use more realistic inflation indexes, which we have used in the fiscal 1983 and 1984 budgets. We will use them to a greater extent in the fiscal 1985 budget.

We are also budgeting for technological risks. We have identified, within the services about \$85 million in fiscal 1984 funds, to be used to keep programs on schedule when unforeseen technical problems arise. Again, we are preparing for independent estimates on all of these sensitive major weapon systems each year as part of the production, planning, and programming system.

Next is competition, which you have mentioned, Mr. Chairman and Senator Cohen. I agree at the outset that there is more that we can do in this area, and we plan to do it. We are, as you may know, going to competition on the AIM-7F, the advanced cruise missile and many categories of ammo.

We have planned seven other competitive efforts on major systems starting with the AIM-7, the Aegis ship, the infrared Maverick, Hellfire, AMRAAM, the fighter engine, a very large program, as well as many subsystems.

We can stimulate more competition in what could be called the more mundane or off-the-shelf items. We are putting programs into place to do that. Essentially, all initial programs in the R&D phase are competitive. We are looking at true tradeoffs for competition on major systems, but they are not all subject to competition after the initial award has been made. Many of the breakouts that could be performed in the major systems are subject to competition. We are going to pursue, along those lines, a lot more competition at the subsystem and vendor level regardless of whether it is done at the prime contractor's plant.