

**PREPARED STATEMENT OF SENATOR COHEN**

Mr. Chairman, I am pleased that you are continuing hearings this year to examine the management of the Department of Defense.

I am convinced that significant economies can be realized through the effective implementation of procurement reforms not only in the Department of Defense, but also throughout the federal bureaucracy. Since, however, the Defense Department is responsible for 80 percent of all federal contracting, it is appropriate that we first focus our attention on the efficiency of its procurement procedures.

Two issues are of primary concern to me: The lack of competition in awarding contracts for goods and services and the excessive cost growth in the procurement of major weapons systems.

In hearings before this Committee in October 1981, former Deputy Secretary Frank Carlucci outlined his proposals to strengthen and streamline the acquisition process of the Department of Defense. The so-called "Carlucci Initiatives" were an ambitious and well-conceived set of goals to reform defense procurement. They included a requirement that the services "budget to most likely cost" to reduce cost growth, increase program stability, and provide a more realistic long-term defense acquisition budget.

Unfortunately, the Department of Defense is still experiencing significant unanticipated cost growth in several weapons systems, although progress has been made.

The principal cause of cost growth, in my judgment, is inaccurate cost estimating. Contractors hoping to win a contract too often knowingly understate the cost of performing a service or providing a product, intentionally "buying-in" with the knowledge that modifications or follow-on contracts will compensate for the initial loss. The Department of Defense, in turn, provides Congress with overly optimistic cost estimates in order to win approval and appropriations for the projects. Unfortunately, it is the taxpayer who gets stuck with the eventual inflated bill when Congress discovers that the funds it had appropriated will not buy the weapons it wanted. The result is often a reduction in the number of units procured and a weakened defense posture.

In commenting on the problem of cost growth, Norman Augustine, the chairman of the Defense Science Board, observed that, if present trends continue:

"In the year 2054, the entire defense budget will purchase just one tactical aircraft. This aircraft will have to be shared by the Air Force and Navy 3½ days each per week except for leap year, when it will be made available to the Marines for the extra day."

What is most disturbing about Mr. Augustine's facetious observation is that it is an accurate extrapolation of current trends. The cost of an individual aircraft has consistently escalated by a factor of four every 10 years. And Mr. Augustine discovered that the rate of growth is most closely correlated with the passage of time, rather than with changes in maneuverability, speed, weight, or other technical parameters that might be expected to increase costs.

Congress often learns too late, if at all, that a project is experiencing excessive cost growth. By the time that Congress realizes that a severe problem exists, it is often too late to do anything but pay the bills.

The Defense Department does provide Congress with information on cost growth in its major weapons systems through quarterly selected acquisition reports. But the SAR's usefulness is limited by its complexity. General Kelly Burke best summed up the SAR when he admitted:

"I don't understand them, and I don't know of anyone who does."

Whether the SAR's are incomprehensible by accident, as General Burke suggests, or by design, improvements are surely needed so that Congress has a better knowledge of why and when the cost growth occurred.

The 32d Carlucci initiative was intended to promote the greater use of competition in contracting. Again, however, the performance has not matched the promise. In fiscal 1982, the Department of Defense sole-sourced about 54 percent of its contracts. That is only a very slight improvement over fiscal 1981, when about 55 percent of the Department's contracts were awarded noncompetitively.

Like other agencies, the Department of Defense justifies most of its sole-source contracts by using the "competition is impracticable" exception in current law. Last week, this Committee unanimously reported legislation that would eliminate this loophole and limit the use of sole-source contracts to situations in which they are truly warranted.

The benefits of expanded competition are numerous. Its uses saves money—at least \$1.5 billion annually according to the Congressional Budget Office; it restrains cost growth; it promotes significant innovative and technological changes, and it