

mittee in which he stated that there was a systematic tendency to underestimate future costs of weapons systems.

Do you agree that costs are systematically underestimated, and would you agree that current systems are underfunded by roughly 30 percent?

Mr. SHELEY. I am not privy to the data with which he arrived at the underfunding of 30 percent. I really didn't look at that at all, so I really couldn't comment on that. As to systematically understating, that has a connotation to it that I am not sure was intended.

To me, that sounds like somebody is throwing something out, trying to play some games, but I do feel that there is a high degree of optimism when a major system starts.

There are some assumptions made that if people were really serious about it, they wouldn't make. One, everybody thinks there is not going to be any technological problems with the system, we are not going to run into real development problems with new technology; two, there is an assumption made that the funds needed to produce this item in an economical manner and at the lowest cost rate, are going to be available at the time that they are needed to do that.

I just haven't seen that. I think the initial estimates are seriously flawed when those assumptions are there. That leads to what I was talking about in my brief opening remarks, that overoptimism in the beginning guarantees you built-in cost growth, not cost overrun, but cost growth on that program, because if you go in with that rosy optimistic estimate and then you do run into technological problems—and they are going to be there—and you are not always going to have all the funds met you need to do the job that you want at the time you are doing the job, you are guaranteeing that those numbers are going to go up, just automatically.

Chairman ROTH. Let me ask you this final question:

You heard the discussions—and I was encouraged by the fact that the Secretary was taking the initiative to try to develop more meaningful figures.

I would appreciate, if you could, in writing, what recommendations you might make with respect to the SAR. What kind of figures would be more meaningful and helpful in evaluating the effectiveness of Pentagon management?

Furthermore, I would ask you, either now or later, if you have any suggestion as to the areas of inquiry that this committee might make to be constructive in trying to get better cost performance.

Mr. SHELEY. I would be happy to supply that to you for the record, sir.

[The information referred to follows:]

U.S. GENERAL ACCOUNTING OFFICE,
Washington, D.C., April 18, 1983.

HON. WILLIAM V. ROTH, Jr.,
Chairman, Governmental Affairs Committee,
U.S. Senate.

DEAR MR. CHAIRMAN: It was my pleasure to have the opportunity to appear before you and your Committee on March 23, 1983. At that time you asked what recommendations we would make to improve the Selected Acquisition Reports (SARs).

On February 17, 1983, I outlined our position on the SARs in a letter to the Chairman of the Senate Armed Services Committee. A copy of that letter is attached. As