

The F-35 Will Cost About What An F-16 Costs

The Lexington Institute

By Loren B. Thompson.

<http://www.rightsidenews.com/201004149541/homeland-security/the-f-35-will-cost-about-what-an-f-16-costs.html>

With the best of intentions, Congress and the Obama Administration have implemented a series of acquisition-reform measures that are making the problem worse. Efforts to clarify the cost of programs are sowing confusion. Efforts to reduce risk are raising costs. Efforts to restore confidence are undermining political support. In short, acquisition reform is backfiring.

A case in point is the F-35 joint strike fighter, a program that will replace the Cold War tactical aircraft of three U.S. military services and at least nine allies with a stealthy, multi-role fighter. According to the Pentagon's most recent Selected Acquisition Report on the F-35, it is meeting all of its performance goals, passing all of its tests, and "setting new standards for quality." The program has progressed more smoothly than any other fighter development program in modern times -- even though it is considerably more complicated.

But that is not the message Congress and the public are hearing. Instead, they are awash in a continuous stream of misleading information about rising costs and schedule delays. The high-water mark in this flood was reached last week, when an anonymous defense official told the web-site InsideDefense.com that each F-35 would end up costing between \$133 million and \$158 million. Those numbers are ridiculous, and the resulting news story omitted several key details:

1. The estimates are based on historical data from the F/A-18 and F-22 programs.
2. The prices the military actually is being charged for the F-35 are far below such estimates.
3. The estimates are based upon assumptions about the future that are unknowable and untestable.

The most basic measure of military-aircraft program cost used by the Pentagon is the "unit recurring flyaway" cost, because it is the foundation on which more inclusive measures are based. Unit recurring flyaway cost is the amount it will cost to produce each plane, not counting sunk costs such as R&D and service-life items like spare parts and training. Those ancillary items typically are not included in the price-tag for a production plane, so they have little impact on the behavior of prospective buyers.

Based on what the prime contractor has actually charged the government to date for three successive lots of fighters, the unit recurring flyaway cost for the most common version of the F-35 will be about \$60 million in today's dollars. That's roughly what the latest variants of the F-16 and F/A-18 fighters cost, and less than half what an F-22 costs. The Pentagon estimates the F-35 will cost some higher amount, but its estimates have consistently been well above what the contractor actually charged.

In fact, in the current negotiations for the fourth production lot, Lockheed Martin is proposing a price far below Pentagon estimates, and government negotiators in turn are trying to get a price below what Lockheed Martin is proposing. That implies that the government doesn't take its own estimates seriously when the time comes to negotiate a price. But then, why should it when everybody knows that customers won't be willing to pay astronomical prices for a single-engine fighter? The whole point of the program is to develop a low-cost fighter, so that's what the F-35 program will produce -- a fighter that costs about what existing fighters do.
