

Information Technology: Selling to the U.S. Federal Government

As noted above, the end of the Cold War resulted in a reduced financial commitment to the Department of Defense (DOD) and an increased commitment to the civilian agencies. Effectively, the DOD and civil agencies act as two separate markets for IT and, for this reason, they are treated separately in the analysis.

- **Decline in the DOD IT budget continues, but slows significantly.**

Between FY1989 and FY1994, the DOD IT budget decreased by almost US\$2 billion, or 16.3%. In FY1999, the DOD IT budget is forecasted to be almost US\$9.6 billion, down from US\$9.9 billion in FY1994. This represents a decrease of only 3.1%, significantly less than the decline during the previous five year period.

- **The federal IT budget continues to shift to the civil agencies.**

Between FY1989 and FY1994, civil agency IT budgets dramatically increased by almost US\$2.4 billion, or 17.9%. During the next five year period, the civil agency IT budgets are expected to increase to almost US\$16.2 billion, a 2.9% increase.

Although the growth in the civil agency IT budgets will slow down significantly during the next five years, the civil agencies are still expected to account for almost 63% of the total federal IT budget in FY1999. Therefore, the civilian agencies' share of the federal IT budget will have increased by almost 10 percentage points in just ten years.

Table 4: Breakdown of DOD IT Budget -- FY1989 to FY1994

(in millions of constant 1994 US\$)

Fiscal Year	In-House	% of Total	Contracted-Out	% of Total	Total	% Change
1989	\$3,789	32.2%	\$7,993	67.8%	\$11,782	N/A
1994	\$3,169	32.1%	\$6,693	67.9%	\$9,862	-16.3%
1999	\$2,685	28.1%	\$6,875	71.9%	\$9,560	-3.1%

- **Despite continued cuts to the DOD IT budget, contracting opportunities actually increase!**

Between FY1989 and FY1994, when the DOD experienced the most dramatic cuts to its IT budget, the in-house obligations and contracting obligations were cut virtually across the board at 16.3%. Although the IT budget is forecasted to decrease again between FY1994 and FY1999, the in-house obligations and contracting obligations are expected to be cut at different rates. The in-house obligations are again forecasted to be cut hard; by 15.3%. The contracting obligations, on the other hand, are actually forecasted to increase from almost US\$6.7 billion in FY1994 to almost US\$6.9 billion in FY1999, an increase of 2.7%. Still, the DOD's procurement of IT in FY1999 will not be anywhere close to its level ten years earlier, in FY1989.

Table 5: Breakdown of DOD Contracting Obligations -- FY1989 to FY1994

(in millions of constant 1994 US\$)

Fiscal Year	Capital Investment	% of Total	Commercial Services	% of Total	Equipment Lease	% of Total	Total	% Change
1989	\$1,964	24.6%	\$5,841	73.1%	\$188	2.3%	\$7,993	N/A
1994	\$1,855	27.7%	\$4,785	71.5%	\$53	0.8%	\$6,693	-16.3%
1999	\$1,867	27.2%	\$4,970	72.3%	\$38	0.5%	\$6,875	2.7%