The Market

The federal information technology (IT) market grew consistently during fiscal years (FY) 1989-1993. In FY1994, the U.S. federal government represented the largest IT customer in the world, purchasing over US$25.5 billion worth of IT products and services. During the next five years, FY1995-1999, the federal IT market is forecasted to experience modest growth. Before examining the IT market in detail, however, the report will identify the factors that are significantly affecting its direction.

The Factors

As the nineties progress, the U.S. federal government is becoming more and more concerned with the country's structural deficit and ballooning public debt. To bring the deficit under control, the government has mandated strict budget cuts on discretionary spending and has significantly reduced the number of full-time federal employees. Now that the Cold War has ended, it is difficult to justify as large a commitment to defense and, consequently, most budget cuts have been targeted at the DOD (Department of Defense) in favour of the civilian agencies. IT competes for resources within discretionary spending and, therefore, is deeply affected by the cuts. On one hand, there are fewer resources to devote to procuring IT products and services. On the other hand, however, agencies are increasingly relying on IT solutions to deal with less labour, time, and money. The federal IT budget, then, is both negatively and positively affected by federal budget cuts.

While discretionary spending appears to have stabilised, mandatory spending has spiralled out of control, due in large part to the dramatic increase in the cost of medicare and medicaid. Despite the Clinton Administration's failure to achieve broad-based health care reform the HMOs (Health Management Organisations) will reform themselves, with or without government legislation. The HMOs are moving from the traditional fee-for-service system to a *managed-care* system. Managed-care relies heavily on information to deliver the most inexpensive treatments to patients, while still providing quality health care. This system requires the integration of hospital administrations, insurance companies, doctors, and patients from across the country. Clearly, IT will play a vital role in the evolution to managed-care.

Recently, another factor has surfaced: *the Millennium Bug*. The Millennium Bug refers to the problem with the year 2000. Until recently, computer software has not been designed to handle the year 2000. Normally, computers indicate years in two digit groups. For example, the two digit group "96" represents the year 1996 and the two digit group "98" represents the year 1998. However, except for the most recent software, the two digit group "00" is not understood or is translated to mean the year 1900. Any software that relies on date-based calculations produces an error when faced with the year 2000. The implications in government are enormous. If the government does not correct the situation by the year 2000, people will not receive their social security cheques or other government cheques on time, the government finance and accounting system will fail, and many of the Department of Defence's (DOD) automatic weapons systems will malfunction. As a result, billions of dollars must be spent to correct millions of lines of government software code. It is estimated that the effort will cost in the area of US$30 billion. This presents an excellent opportunity to firms that develop inexpensive and flawless methods to correct the problem with the year 2000. During the next four years, the Millennium Bug will be one of the major drivers in government IT spending.

Positive Affect on Federal IT Budget
- IT Manpower Multiplier
- Health Care Reform
- Millennium Bug
- End of Cold War (civilian agency IT budgets)

Negative Affect on Federal IT Budget
- Cuts to Discretionary Budgets
- End of Cold War (DOD IT budget)