

Military Commissaries **Adopted May 6, 2000**

Military commissaries were originally intended for full-time military personnel and reservists on active duty. Just over \$1 billion in annual government subsidies enable commissaries to offer groceries approximately 27 percent below the grocery prices in private-sector supermarkets located outside the bases, according to studies conducted for the Defense Commissary Agency. Originally established to provide food and other goods to soldiers in isolated posts, they now exist to supplement the pay levels of military personnel, and to provide a unique benefit in recognition of the hardships and sacrifices made by active duty personnel and their families. Commissaries often answer the needs for those personnel overseas where shopping alternatives are inconvenient or unavailable.

Over the last decade, bases have been reduced in size or closed within the United States and military personnel have increased their use of private-sector grocery stores where local supermarkets have offered competitive, convenient alternatives. As a result, the military commissary system has made numerous proposals to expand access beyond those currently eligible to shop in base facilities including extending privileges to reservists not on active duty and, in some cases, to civilians.

Although FMI has never opposed the commissary system, FMI believes that shopping privileges should not be extended beyond those currently eligible. Within the United States, it is not appropriate for taxpayers to subsidize the purchases of reservists or others not on active duty. While not on active duty, these individuals live and work at competitive pay levels in the private sector with ready access to private sector supermarkets. We recognize that different eligibility rules may need to apply for overseas hardship posts.

The military post exchange (PX) system provides general merchandise outlets for military personnel but receive no direct taxpayer subsidies. Post exchanges are required to cover their costs of operation although an indirect subsidy exists because these outlets are housed on military bases and are, therefore, not required to pay rents comparable to private sector real estate costs.

Within the United States, FMI believes it is time to place military commissaries on the same basis as post exchanges; that is, it is time to eliminate direct subsidies and require commissaries to recover their costs of operation. We believe the funds now provided to subsidize commissary operations would be more appropriately directed to improving pay levels. This would improve the quality of life for our military personnel and allow them to make their own personal decisions as to where to shop.

Post Exchanges (PX's) and Commissaries: Similarities and Differences

- PX's are general merchandise outlets (selling everything from appliances to jewelry to toys to clothing) with no direct taxpayer subsidy. Exchanges have an indirect subsidy in that they are located on military bases and their operations costs (rent and military-salaried employees) are covered, but that is also the case for commissaries. Exchange sales cover civilian employee salaries, inventory, investments, utilities and capital investments.

Commissaries are supermarkets (selling everything from tomato sauce to paper towels to tobacco) and receive a direct subsidy of about \$1 billion per year. The subsidy is used for personnel costs. The subsidy has increased over the years, but leveled off in about 1992 to sit right around the \$1 billion mark where it remains today.

- PX's charge the local market price for goods plus a 10 percent mark-up. Commissaries charge 5 percent above the acquisition cost of the food product. Neither collects sales tax.
- Sales have increased at PX's due in part to the ability to now offer a broad array of goods. The inventory selection has increased to compensate for the declining military population.

Sales at commissaries have decreased. For example, in 1992 sales were 6.33 billion and in 1999 they were 4.54 billion. This may also be due to the declining military population, but also due to the convenience and competitiveness of the local supermarkets.

There is some overlap of products between the exchanges and the commissaries. For example, both might sell bags of chips or have a soda machine in them.

- There are 200 domestic commissaries with a total of 308 worldwide.
- Commissaries are run by the Defense Commissary Agency, headquartered in Fort Lee, VA. The exchanges are run by several entities, which vary depending on the branch of the military.
- The commissary patronage base is 47 percent active duty personnel, 48 percent retirees and 5 percent reservists. The retirees account for around 70 percent of the system's sales.
- The modern commissary system began in 1867 and the exchange system began in 1895.