

Combine Military Exchanges and Commissaries and Reduce Commissary Subsidies

RECOMMENDATION

The Defense Department should reduce commissary subsidies by 20 percent, and combine its exchange and commissary systems in order to provide goods more efficiently. This proposal saves \$286 million in FY 2018.

RATIONALE

The DOD currently has an extensive and separate retail network to serve military members and their dependents. There are four different retail systems operated by the DOD. One of them, the commissaries, is a network of grocery stores, available to all branches of the military. In addition to commissaries, the military has three separate general-retail stores (exchanges), one for the Army and Air Force, one for the Navy, and another for the Marine Corps.

Commissaries and exchanges are managed differently. All three of the exchanges are self-sustaining, relying on the revenue from their sales rather than direct appropriations. Commissaries, which are run by the Defense Commissary Agency (DeCA), rely on an annual subsidy to pay for their civilian workforce. Unlike the exchanges, the commissaries do not mark up the prices enough to fully fund their operations. In FY 2016, the subsidy was \$1.435 billion.

The FY 2017 National Defense Authorization Act (NDAA) allows the Secretary of Defense to take steps toward common management of the exchanges and commissaries. Congress and the Secretary should continue this effort with the goal of providing service members affordable access to goods with few or no subsidies being provided by taxpayers. In those areas where sufficient private grocery and retail outlets operate, it is reasonable to expect that government commissaries and exchanges could be phased out completely. In order to prevent fiscal hardship for the most junior service members, a needs-based system could be employed to provide them with a pre-loaded credit card, which could be used for groceries to cushion them from the increased prices.

ADDITIONAL READING

Mackenzie Eaglen and Julia Pollack, "How to Save Money, Reform Processes, and Increase Efficiency in the Defense Department," Heritage Foundation *Background* No. 2507, January 10, 2011.

Congressional Budget Office, "Reducing the Deficit: Spending and Revenue Options," March 2011.

CALCULATIONS

Savings are expressed as budget authority based on the FY 2016 enacted subsidy level of \$1.435 billion as found in Defense Commissary Agency, "Fiscal Year 2017 President's Budget," pp. 15 and 16, http://comptroller.defense.gov/Portals/45/Documents/defbudget/FY2017/budget_justification/pdfs/06_Defense_Working_Capital_Fund/DeCA_FY2017_PB.pdf (accessed February 6, 2017). This estimate assumes that the \$1.435 billion budget authority level holds steady in FY 2017, and decreases at the same rate as discretionary spending in FY 2018 (-0.32 percent) as projected in the CBO's most recent August 2016 baseline spending projections. The savings assume a 20 percent reduction of \$286 million from the estimated FY 2018 subsidy of \$1.43 billion.