

## **Obama Seeks to Trim Farm, Insurance Subsidies**

(Wall Street Journal, DC)

By BILL TOMSON

The Obama administration wants to save billions of dollars by putting new limits on farm subsidies and cutting back on government support for crop-insurance companies, according to the fiscal year 2011 budget proposal released Monday by the White House.

Farmers who most need assistance will continue to get it, but "wealthy farmers" should be cut off from the billions of dollars the U.S. Department of Agriculture doles out every year, according to the budget proposal.

Farmers are currently excluded from subsidies if their non-farm-related adjusted gross income, or AGI, is more than \$500,000 or their farm-related AGI is more than \$750,000.

But the Obama administration wants to lower those income ceilings by \$250,000 in each category over a three-year period, thus excluding more farmers.

The cap on how much any farmer can be paid is also being targeted for a 25% cut. Under that proposal no farmer could collect more than \$30,000 a year in subsidies, down from the current \$40,000.

"This proposal would allow USDA to target payments to those who need and can benefit from them most, while at the same time preserving the safety net that protects farmers against low prices and natural disasters," according to the budget proposal.

The Obama administration foreshadowed the desire to cut farm subsidies a year ago when USDA Secretary Tom Vilsack announced he wanted to take a look at changing how payments are made to farmers.

Budget officials said government payments would be cut by about \$2.5 billion over 10 years from the proposed subsidy reductions.

The Obama administration is counting on more cost cuts in fiscal year 2011 from overhauling the way the USDA subsidized the crop-insurance industry. The USDA is in the midst of that overhaul after unveiling the first draft of its proposal for a new Federal Crop Insurance Program in December.

"Crop-insurance companies currently benefit from huge windfall profits due to the structure and terms of the Government's contract with the companies, called the Standard Reinsurance Agreement," according to the budget proposal.

The USDA recently commissioned a study that concluded that a reasonable rate of return on equity for private crop-insurance companies is 12.8%, but the average now is 16.8%. USDA data show government payments to crop insurers have more than doubled in recent years, jumping from \$1.8 billion in 2006 to \$3.8 billion in 2009 while the total number of policies held by farmers has declined.

The budget proposal is predicting the crop-insurance changes will cut \$8 billion in government spending over 10 years.