A nuclear-armed Iran would threaten the entire region and its enormous energy resources. It would motivate broad nuclear proliferation throughout the Middle East. It would further destabilize the region already in turmoil. It would encourage radicalism and terrorism, and it would threaten the destruction of the State of Israel.

This last danger alone—the potential destruction, the declared destruction of the nation of Israel—that alone potentially raises the danger to which Israel is the last resort, but almost certainly we have to respond to it to ensure its survival. That alone compels us to be clear-eyed and determined to find a solution before we have to face that potential decision.

I have been working in recent years with the Bipartisan Policy Center to press for a robust, comprehensive three-track effort to raise the stakes on the Iranian regime and to compel it to live up to its commitments and halt its weapons program. The first track we proposed was enhanced diplomatic efforts. People say, Why diplomatic efforts? That is just going nowhere.

We felt we needed to enhance those efforts to at least give that a chance, so that those who would say sanctions should not be imposed until we have tried diplomatic efforts—we said: OK, let's continue to give that a shot, but let's do that in parallel with some of these other approaches.

But this enhanced diplomatic effort, where we create and invigorate and motivate an international coalition devoted to the same objective to prevent Iran from gaining nuclear weapons, has been tried, and it has not succeeded.

Now, this effort does not mean simply repeated outreaches to the Iranian regime to engage them in dialog. The Obama administration came into office promising such discussions, but this has gone nowhere. International talks in Geneva last year accomplished nothing. Talks in Turkey earlier this year broke down in the afternoon of the very first day. Clearly, lack of any flexibility and goodwill on behalf of the Iranian regime has dissuaded any further attempt to renew dialog efforts. Dialog with the Iranians is in a deep freeze.

The PRESIDING OFFICER (Mr. WEBB). The Senator has used his 10 minutes.

Mr. COATS. Mr. President, I was not aware I had asked for 10 minutes.

The PRESIDING OFFICER. The order is for 10 minutes.

Mr. COATS. That is news to me.

I ask unanimous consent for an additional 5 minutes.

The PRESIDING OFFICER. Is there objection?

Without objection, it is so ordered.

Mr. COATS. Mr. President, I will just try to see how I can wrap this up.

I might ask, Mr. President, is there an order in place that I am not aware of?

The PRESIDING OFFICER. The order is that the Senate is in morning business with 10 minutes to be consumed by each Senator.

Mr. COATS. All right. I apologize. I did not know that.

The PRESIDING OFFICER. Although consent has been given for larger blocks of time, and the Senator has just been given consent.

Mr. COATS. All right. Thank you, Mr. President.

The second track for solutions are sanctions. We currently have the Sanctions Act in place. We want to impose an additional sanctions track. That is why I have sponsored and cosponsored this new act. The impact of this, I think, could potentially be significant. But, so far, we have not seen success as a result of sanctions.

Since the international community first began to face this challenge—in the form of IAEA inspections and reports, various U.N. Security Council sanctions resolutions, and protracted negotiations to construct an effective coalition strong enough to have meaning—none of these actions have seriously thwarted the Iranian regime's nuclear ambitions.

That takes us to the third track of a comprehensive approach. Those of us in the Bipartisan Policy Center, working with experts on all sides of this issue, came to the conclusion that certain military options can be put in place that deserve serious and open discussion. Since diplomacy and sanctions have proven to be too weak, we need an extra kick to this process in order to achieve the desired result.

I am suggesting discussion and debate and dialogue. No one should suppose that including a military option in this package means anything other than preparing the ground for the logical, necessary access to measures of last resort, should they be needed.

Through the Bipartisan Policy Center, we participated in an exhaustive analysis of all the means and consequences of potential military action against Iran's nuclear weapons program. There were no war advocates in that room—none of us. Nevertheless, if it is true that a nuclear weapons-capable Iran is ''unacceptable,'' then our Nation and the international community as a whole must see with vivid clarity what measures remain, should the first two tracks fail.

The Iranian regime must be especially clear-eyed and nondelusional about those potential consequences should it not change its behavior. Indeed, to give the diplomatic and sanctions tracks the essential credibility they require, the military option must be entirely believable.

Military options themselves include a multipronged, comprehensive strategy, not all of which are ''kinetic'' or mean an actual attack with our Armed Forces. Such a strategy would include constructing the alliances needed to station U.S. forces in position to confront Iran and then a series of steps designed to demonstrate to Iran that the United States and its coalition partners are capable of decisive military action, if necessary, to stop its nuclear program.

At the end of the day, we have to decide whether we will tolerate an Iran with nuclear weapons. If other States, including, importantly, China and Russia, become convinced of this core reality, they will make different calculations about their own self-interests in this matter. If they come to believe that we so desperately need them to accept modest sanctions on Iran, then they can compel us to take off the table the sanctions proposals with real teeth. We have become hostage to their views on this vital issue and also to their related economic interests.

So if these and other States come to realize that when we say ''unacceptable,'' we mean it, they will come to different conclusions about how their own interests can be best served.

In conclusion, a nuclear weapons-capable Iran that we believe can be contained is not one that we are therefore prepared to tolerate. If we think we can solve this problem through diplomatic efforts and sanctions, we have not been able to do so, and the likelihood of doing so diminishes as every day goes by. The nuclear clock keeps ticking in Iran. This is an illusion and one that makes our task much harder. If others, however—especially Iran, but also including our allies and other coalition partners—come to believe that we would consider tolerating a nuclear Iran because it can somehow be contained, then none of this will work. The result then will not be a contained and tolerated nuclear Iran; it will be the military action we all hope to avoid, whether it is ours or another's.

With that, I yield the floor.

The PRESIDING OFFICER. The Senator from New Hampshire.

THE BUDGET

Mrs. SHAHEEN. Mr. President, I come to the floor this afternoon to lend my voice to the others who have been here—my colleagues—to talk about the need to come to the table and come up with an agreement around how we are going to deal with raising the debt limit by the August 2 deadline and include some sort of package to address our debt and our deficits.

I listened carefully to my colleague and friend from Indiana, and I think we agree on a lot of what he said. I certainly agree that both sides of the aisle have been working hard to look at ways we can address this issue. I agree we need Presidential leadership to address this challenge we are facing. That is why I was so pleased to see the President come out yesterday and say, very strongly, that in order to address this, we are going to have to put revenues on the table, make sure they are in the mix, because we cannot get there without looking at revenues, with just looking at cuts to the budget.

So I think there is a lot of agreement. But every negotiation I have been part of means that every side has to give a little. So drawing a line in the sand and saying: We are not going to look at revenues at the same time we are looking at spending cuts is not the way for us to solve this challenge.

Now, we all know that negotiations are ongoing between the President and leadership in both the House and the Senate. They are looking at all kinds of measures to reduce the deficit and raise the legal debt limit. There is no doubt we have to address the long-term debt and deficits. I repeatedly called for a bipartisan package that includes reforms to everything that is deficit related. So that means domestic, defense, and mandatory spending, as well as looking at revenues. I support including deficit-reduction measures in the vote to raise the debt limit. I believe that reducing the deficit is important to strengthening the long-term health of our economy.

But that being said, failure to increase the debt limit would do exactly the opposite. It would devastate the economy. To be clear, raising the debt limit does not mean spending more. It means meeting our existing obligations—obligations made by both parties over many years. Failure to raise the debt limit means default. It means, for the first time in the history of the United States of America, we would not pay our creditors, and that disruption would cause the worldwide economy to have devastating consequences—consequences that would be incredibly expensive to American taxpayers.

I think Warren Buffett said it very well when he said: If Congress did that, it would be the ''most asinine act ever.''

Fed Chairman Ben Bernanke said it would cause severe disruptions in the financial markets, it would slow our economic recovery, and make the deficit problem worse.

The U.S. Chamber of Commerce said it absolutely must be done, the debt limit must be raised.

Economist and former Reagan adviser Larry Kudlow said default would be ''catastrophic.''

All these experts have pointed out that the disruption to world financial markets would plunge us into another financial crisis, and America would lose the trust of world investors, which would result in higher borrowing costs for the government, and that would ultimately be borne by taxpayers.

It would also mean higher interest rates for consumers, making it more expensive to buy a house, pay for college, or even pay your credit card bill.

In a recent report, the nonpartisan Congressional Research Service estimated that if we do not raise the debt limit, the Federal Government would have to eliminate all spending on discretionary programs, cut nearly 70 percent of spending for programs such as Social Security and Medicare, or increase taxes by more than 60 percent. That is not just speculation. That is what will happen if we fail to raise the debt limit.

We should not be playing politics with this issue. We all have a stake in making sure this gets done. That is why it makes no sense to me that the leadership on the other side of the aisle is refusing to entertain any discussion about eliminating any tax loopholes.

I think it is important to highlight some of those tax loopholes, and there are two I want to talk about that have been mentioned on the floor in the last couple of days. I would think we could all agree that these are the kinds of tax loopholes we ought to be closing.

First, we have a special deduction for yacht owners. If the yacht is big enough, like the yacht shown in this picture I have in the Chamber—so if it has beds and a bathroom and a kitchen—then yacht owners can claim it as a second home, and they can get the same mortgage interest deduction on their taxes that we give to middle-class homeowners.

I think this is a clear abuse of the Tax Code. The mortgage deduction provision is meant to increase home ownership, not yacht ownership. There are as many as a half million yachts in the United States that qualify for this exemption, and the yacht industry actually includes this tax loophole in their marketing.

Now, the second loophole that, again, has been mentioned before on the Senate floor is a tax break for racehorse owners. The current Tax Code allows racehorse owners to depreciate the cost of their horses at an accelerated rate.

Yachts and racehorses, these are tax breaks that just do not make sense. We all know we are grappling with a truly historic long-term deficit. To continue to ignore the revenue side of that deficit is irresponsible. Our Tax Code is riddled with hundreds of arbitrary tax breaks just like the one for racehorses and the one for yachts. In fact, we give away more in tax breaks in a year than we take in through individual and corporate income taxes. These tax breaks are, too often, granted based on who has the most clout in Congress rather than based on what is best for the economy or what is fair for people in this country.

So the result is that some businesses are paying nearly the full corporate tax rate while others are paying almost nothing. We need a fairer system. We need a tax system that drives innovation and keeps our economy competitive on the global stage.

Do we really want to continue supporting tax breaks for yachts and racehorses? If we want to eliminate waste in government, isn't this exactly the kind of spending we should be targeting?

Lastly, we must consider the price of refusing to deal with these tax breaks, of refusing to say we are going to look at these kinds of tax breaks because we know that meaningful deficit reform will mean trillions of dollars in changes. In avoiding revenues, Republicans have, instead, proposed steep cuts that are dangerous both to the health of the American people and to the strength of our economy.

Eliminating funding for basic women's health care, ending Medicare as we know it, dangerous cuts to nursing home care, slashing Pell grants that will help train the next generation of engineers, stopping the development of new energy technologies, and halting efforts to retool the economy to compete in the 21st century—these are the alternatives that Republicans are proposing to save tax breaks for yachts and racehorses.

We know we need to continue these kinds of basic services and investments in the economy. The President's bipartisan commission has said it, the business community has said it, and Americans know it. We also know that finding a compromise on the debt limit is critical if we want to avoid plunging our economy back into chaos. We know that many of these tax breaks just do not make sense.

So I urge my colleagues, let's look at the facts. Let's work together for what we all know needs to happen—reduce the deficit, raise the debt limit, and keep America working.

I ask unanimous consent that Senator JACK REED from Rhode Island be the next speaker on our side.

The PRESIDING OFFICER. Without objection, it is so ordered.

The Senator from Rhode Island.

Mr. REED. I ask unanimous consent to speak as in morning business.

The PRESIDING OFFICER. We are in morning business. The Senator is recognized.

Mr. REED. Mr. President, the bills from a decade of ineffective tax cuts and unpaid wars and a recession fueled by lax regulation have come due. I did not support the policies that generated these bills, but pretending these bills do not have to be paid is not an option. Indeed, playing chicken, literally, with the full faith and credit of the U.S. Government is a recipe for disaster. If the U.S. defaults on its debt, every single expert tells us, it will have a huge and immediate impact on the lives of every American all across this country, from the poorest to the most well off. And particularly for those who are struggling, it will be devastating at a time when they can least afford it. Not only could it cause a stoppage of Social Security and veterans' benefits checks, but, more systemically, it would undermine our Nation's opportunity to build a more lasting and more prosperous recovery.

We have seen some progress, but it is not enough. This step, if we default, would seriously undermine our ability to function as an economy and would seriously, perhaps decisively affect our ability to mount and continue to mount a reasonably recovery. We are still recovering from the worst depression since the 1930s. Much of it is based on the policies I mentioned previously: two unfunded wars, the expansion of an entitlement program that was unpaid for, deep tax cuts that were unpaid for—all of it put on the tab, and the tab is coming due. But now to suggest that we walk away from our obligation to provide at least the legal means to pay our debt is irresponsible.

My colleagues on the other side of the aisle like to talk about taking a scalpel to wasteful spending and about the primacy of severely curtailing investments in our society. They continue to talk about an economic philosophy that I think has been disproven by the last several years, particularly from 2000, when President Bush and the Republican Congress inherited a projected multitrillion-dollar surplus and turned it into a huge deficit under the premise that these types of cuts in taxes, these types of policies would stimulate jobs.

In fact, there has been talk that we are now focusing on cutting spending on Medicare and Medicaid, which is so central to all Americans. It is difficult also to imagine that they are asking for these cuts at a time when so many families throughout this country are struggling—struggling to stay in their homes, struggling simply to pay their bills each week, struggling to ensure their children can continue on with their education. All of this needs a government that supports these Americans, not reneging on commitments we have made, particularly commitments we have made financially to essentially pay for the obligations that have been run up, particularly beginning in 2000 and continuing through the Bush administration.

We all understand we have to reach a principled compromise, but in that compromise, as so many of my colleagues have suggested, an exclusive focus on cutting expenditures will not get us there, I think, simply based on the arithmetic, but more than that, it will impose huge burdens on families who are struggling, and it will continue to reward the most prosperous in this Nation. I do not think that is the right way to do it or the fair way to do it.

The priorities I have heard expressed on the other side are to continue to talk about very deep tax cuts, at a time when we have the lowest revenues we have had in decades, and then talk about cutting expenditures—education, health care, and, indeed, under their proposed budget, Medicare and Medicaid, which is so central to so many people.

We know we have to focus on not just expenditures but also revenue, and we also have to begin the very difficult and arduous task of entitlement reform. We began that in the last Congress. In fact, I think it is ironic, as I recall the debate on the affordable care act, that most of the amendments my colleagues on the other side were offering were to send back to committee proposed changes in Medicare that would have reduced costs and, I would argue, would actually have improved quality. That was their focus. Now their focus has suddenly shifted to how we must cut Medicare and Medicaid.

What we have to do is provide the same kind of reasonable, balanced approach that took place in the 1990s. Again, without any Republican support in 1993 and 1994 but with a Democratic President and Democratic votes, we were able to begin to balance the budget. It was a multiyear process. It required difficult choices. But we have to continue to pursue that path of a balanced, reasonable response to this problem.

As I said before, one of the issues that is so central to this country is not directly related just to the issue of the deficit, it is also related to jobs. They are obviously closely interrelated. The more jobs we have, the more people who are participating in the economy, the better our fiscal position is in Washington.

Sadly, what we saw, particularly at the tail end of the Bush administration, was a collapse in our jobs market. The U.S. economy lost 8.7 million private sector jobs in 2008 and 2009. We experienced—under the Bush administration principally—25 consecutive months of job losses. That, again, has contributed to these huge deficits. If people do not work, they do not contribute to the taxes. If people do not work, they are likely to get unemployment benefits. People who lose part of their wages may qualify for other programs.

Since the President has come to office, we have seen a rebound. We have not seen the full, robust recovery we need, but we have seen a rebound. We gained 2.081 million jobs, a little over 2 million jobs in 2010 and 2011. We have experienced 15 consecutive months of private sector job creation—not enough, but we have reversed the collapse and 25 months of job decline by creating jobs and continuing on a sustained basis as a result of difficult decisions that were made by President Obama and the Democratic Congress in the Recovery Act.

My home State of Rhode Island has been particularly hard hit by the policies we saw in the first part of this decade. We have the third highest unemployment rate at 10.9 percent. We have seen a significant foreclosure problem. We have seen very crippling impacts on the working families of Rhode Island.

Now we hear that the only solution we have and the best way to correct jobs is to continue to do what was done under the Bush administration: Let's just cut taxes, particularly for the wealthiest Americans. The evidence suggests that does not produce the kinds of jobs—not even the kinds of jobs we have seen in the last 15 months. The economy did not add a single new job during the 3 years under the Bush tax cuts. The economy had 132 million jobs in June 2001 when we passed—against my opposition—the Bush tax cuts. That was the month it was first signed into law. Three years later, in June 2004, there were just 131.4 million jobs. We actually lost some jobs.

If you take a step back and look at the course of the entire Bush Presidency, from January 2001 through January 2009, there was a decline in the number of private sector jobs of approximately 650,000. That is over the course of the whole administration. In fact, the only net job creation that occurred was in the public sector. Nearly 1.75 million government jobs were created over the course of the Bush Presidency.

Revenue as a percentage of our economy, as a percentage of GDP, was 14.9 percent in 2010. It is the lowest level since 1950 when it dropped to 14.4 percent. By comparison, government revenue was averaging about 18 percent over the previous 30 years. So you see, under the Bush policies, which essentially my colleagues want to emulate, reconstitute, no job growth and a significant decline in revenue.

At a time when revenue as a percentage of GDP is the lowest it has been in 60 years, now we are talking about further tax cuts in the Republican budget, but we are certainly talking—my colleagues are talking about maintaining the current taxes. Frankly, there are so many tax expenditures that my colleagues talked about that are not worthy of retention, that are loopholes that we can, in fact, eliminate, and we should. Some examples: tax break for people who breed alpacas; deductions for film and TV production; favorable tax depreciation for racehorse owners, horse breeders tax credit; an exemption for wooden practice arrows used by children; NASCAR motorsport racing facility tax credit; withholding tax breaks on horse and dog track winnings. The list can go on and on.

The PRESIDING OFFICER. The Senator has used his 10 minutes.

Mr. REED. Mr. President, I ask unanimous consent for 1 additional minute.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. REED. I thank the Senator from Illinois for his deference.

We understand we have to make tough choices. They have to include expenditure cuts. We have already started with the continuing resolution of the last year where we reduced spending significantly. But we have to have revenue on the table. As Federal Reserve Chairman Bernanke said:

> [. . .] a sharp fiscal consolidation focused on the very near term could be self-defeating if it were to undercut the still-fragile economy.

We need to create jobs. We need to balance deficit reduction with job creation. We need to put everything on the table, and we need to recognize that the consequences of default on our debt will be staggering, felt by every American. One figure that continues to be impressed upon me is the fact that for every 1 percent increase in the interest rate over the 10-year period, we increase our deficit by over $1 trillion.

I think the first response to a default would be a rise in the interest rates we have to pay for our debt.

I would urge progress on the efforts to have a comprehensive solution.

I yield the floor.

The PRESIDING OFFICER. The Senator from Illinois is recognized.

Mr. KIRK. Mr. President, I ask unanimous consent to speak as in morning business.

The PRESIDING OFFICER. The Senate is in morning business. The Senator is recognized.

LINCOLN LEGACY INFRASTRUCTURE DEVELOPMENT ACT

Mr. KIRK. Mr. President, beyond the debt limit extension, which has rightly consumed the attention of this body, we face another challenge—the funding for our roads, airports, and railroads.

Our best estimate is that current needs would total $225 billion annually, but revenue from the main source of funding for these programs, the gasoline tax, only totaled $90 billion.

The law requires balance in the transportation trust fund. So how would we respond? There are basically three major options.

Option 1: Let funding fall. This would be a catastrophe, especially for the construction industry, where already in Illinois upwards of 30 percent of construction workers are without work.

Option 2: Increase the gas tax. But that is one of the most regressive taxes that hits the working poor harder than almost any other citizen in our country. The slowdown in our economy as a result of a gas tax increase would probably cause unemployment to go up and could jeopardize our extremely fragile recovery.

There is a third option, but before I describe that, let me ask a question. Arguably, what is the third biggest thing that the Lincoln administration was known for? First would be the emancipation proclamation. Second would be the victory in the Civil War. What is No. 3? I argue that it was the 1862 Transcontinental Railway Act—an act that, in 1862, when the Lincoln administration was borrowing as much money as it could from as many creditors as possible to fund the expansion of the Union Army, with credit already stretching to the limit—and does this sound familiar—the Lincoln administration launched the largest infrastructure development program in the history of the United States. We built a 2,000-mile railroad in only 6 years, and created 7,000 American towns. We did it with only $50 million in appropriations.

How did we fund the rest? The answer is that this was the ultimate public-private partnership. I am particularly worried that in this Congress—especially as it considers a transportation bill next year—we have forgotten our own economic legacy, especially from the time that we built one of the largest infrastructure development projects in history.

To recall, the Federal Government granted 20 square miles in alternating sections on either side of the railroad for every mile of track they laid for those railroads. The railroads were also granted timber, stone, and mineral rights on this land. In addition, for every mile of track they laid, the railroads were authorized to issue a set amount of bonds—loans they received—which interest payments were backed by the Federal Government. This guarantee allowed 30-year bonds to be issued at a low rate of 6 percent. This was one of the largest development projects in the history of the United States. That is why it is an example for how we respond to our transportation needs today.

When we look at our own economic legacy and look at the funding shortfall for new roads, airports, and rail, I think we should recover that legacy to respond to the challenge for next year. That is why I have introduced the Lincoln Legacy Infrastructure Development Act.

This legislation removes a number of Federal restrictions on public-private partnerships, providing States greater flexibility to generate transportation revenues and enhanced access to private capital for road, rail, aviation, transit, and port infrastructure. Under the Lincoln Legacy Infrastructure Development Act, we could mobilize over $100 billion for new infrastructure investment.

Specifically, this legislation lifts caps on cost recovery programs for highways; it incentivizes partnerships in transit; it removes barriers to airport privatization; it increases resources for the Transportation Infrastructure Finance and Innovation Act, sometimes called TIFIA; and it makes improvements to the Railroad Rehabilitation and Improvement Financing Program, which are backed by the U.S. High Speed Rail Association and the American High Speed Rail Association.

The legislation also stands on the premise that the taxpayer should be protected in these types of arrangements. Indiana showed us what a properly structured deal should look like. Governor Mitch Daniels reaped a windfall from the 2006 lease of the Indiana toll road that netted his State $3.8 billion for new transportation upgrades. Most of the money has now been reinvested in highway projects throughout his State, but leaders shrewdly placed $500 million in an interest-bearing account to fund future road projects. This is one of the many reasons why the Indiana economy has grown at twice the rate of the Illinois economy.

We have seen public-private partnerships take off not only in our own country, where they were invented, but in other countries, especially British Columbia and Australia, where they have authorized $30 billion for transportation infrastructure—almost 20 percent of their total, using this innovative financing means.

In these times of deficit and debt, we could let America grind to a halt, we could raise taxes and sock it to the working poor, we could slow down our economy with a new government burden, or we could recall our own economic legacy, written by Abraham Lincoln's administration itself, to use public-private partnerships as a way of growing jobs and incomes in the United States, without increasing taxes.

I urge this body to review this legislation as we come up with a new transportation bill, and to see it as a way to improve jobs, income, and our infrastructure—which is so critical to the crossroads of the Nation, Illinois—and do it in a way that doesn't hurt our economy or the working poor.

With that, I yield the floor.

The PRESIDING OFFICER. The Senator from Michigan.

THE DEBT CEILING

Mr. LEVIN. Mr. President, we must raise the debt ceiling, period. This is not an opinion, it is a fact. The consequences of failing to act are simply too catastrophic to consider any other course. Negotiations are underway now to seek an agreement to raise the debt ceiling as part of a larger agreement on deficit reduction. But there is a major obstacle to agreement: a refusal on the part of the Republican leadership to compromise, a refusal to understand that sacrifice must be shared.

The sacrifice, they say, must come from middle America—those struggling to pay for a college education or for health care for their kids or for long-term care for their parents. The Republican leader demands that this sacrifice be made by the middle class in order to protect the Bush tax cuts and other tax breaks for the wealthiest among us—despite the huge and growing gap in the distribution of income in our country between the wealthy and the middle class.

One example of the kind of tax breaks and tax loopholes that we Democrats seek to change is the unconscionable tax break given to hedge fund managers. Hedge fund managers generally make their money by charging their clients two fees. First, the manager receives a management fee, typically equal to 2 percent of the assets invested. Second, the manager typically receives 20 percent of the income from those investments above a certain level. This 20-percent share of the investment returns from hedge funds is known as ''carried interest.'' Under current law, most hedge fund managers claim that this carried interest qualifies as a long-term capital gain, currently subject to a maximum tax rate of 15 percent, rather than being taxed as ordinary income, currently subject to a maximum tax rate of 35 percent.

But a moment's analysis shows that this money is ordinary income by any fair definition and should be treated that way. The 20-percent fee is not capital gains, because it applies not to capital that the hedge fund manager