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February 1, 2022

Policymakers Should Craft Compromise Build Back Better Package

Pressing National Needs Require Action

By CBPP Staff

As policymakers pursue compromise on a Build Back Better bill, they should craft legislation that, even if smaller, still makes significant progress toward more broadly shared prosperity in which more families can make ends meet and access health care, more children have what they need for healthy development and school success, and more workers can upgrade their skills to match the needs of today's economy.

The COVID-19 pandemic highlighted serious underlying weaknesses in the U.S. economy and public policies that predated the crisis and will persist if left unaddressed. For example, prior to the pandemic, 1 in 7 U.S. children lived in poverty, including 1 in 4 Black and 1 in 5 Latino children[1] — and in international comparisons, child poverty has long been far higher in the U.S. than in other similarly wealthy nations.

Hardship isn't limited to households experiencing poverty. Many households with incomes somewhat above the poverty line or whose incomes or costs fluctuate also struggle to make ends meet, including facing challenges affording food and housing, child care and preschool, and health care and elder care. Roughly 30 million people lacked health coverage prior to the pandemic, and large racial gaps in opportunities and outcomes, the result of long-standing racism and discrimination, persist in health, education, incomes, and other areas. In rural and urban communities alike, millions of households from a wide range of backgrounds have trouble covering the cost of necessities.

The impact of these issues goes well beyond near-term hardship. Under-investing in children shortchanges their futures, which also robs the nation of their full potential. And allowing millions to go without health coverage worsens their health and well-being and increases financial hardship as households struggle to access and pay for needed health care.

We know how to make a dent in the challenges families face. The House-passed Build Back Better legislation includes investments, backed by research, that build on successful federal and state efforts, in some cases continuing policies that have proven their worth in the pandemic. These measures — to strengthen the Child Tax Credit, expand health coverage and make it more

affordable, and expand job training and housing assistance — would help families meet everyday challenges, while making investments in children, workers, and health care with long-term payoffs. (The bill also includes urgently needed measures to address climate change, which is outside our scope of expertise.) These investments are offset by sound revenue-raising measures and measures to reduce the cost of prescription drugs, which save money for consumers and the federal government alike.

To be sure, the House legislation will need to be revised and scaled back to secure the needed votes for Senate passage. But given the scale of the challenges facing millions of households and the ways in which our under-investment holds back individuals and the country as a whole, failure to seize this moment should be unacceptable when real progress is possible.

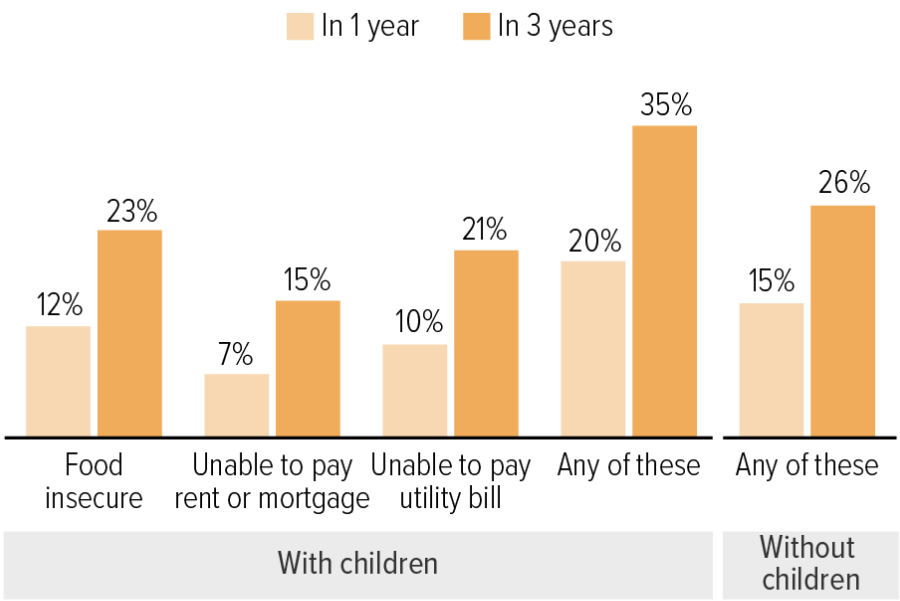
Why We Need Change: Economic and Health Insecurity Widespread Even Before Pandemic

Economic insecurity was widespread even before the pandemic, and even among middle-income families. This is clear from Census Bureau data tracking people's struggles over multiple years, along with other data sources:[2]

More than 1 in 4 households, including more than 1 in 3 households with children, couldn't afford adequate food, shelter, or utilities in one or more of the three years from 2014 to 2016. In all, 35 percent of households with children (14.1 million households with 27.6 million children) were food insecure, were unable to pay their rent or mortgage, or were unable to pay for utilities (gas, oil, or electricity) over those three years. (See Figure 1.)

FIGURE 1

1 in 3 Households With Children Could Not Afford Adequate Food, Housing, or Utilities at Least Once in 2014-2016 Period



Source: CBPP analysis of 2014-2016 Survey of Income and Program Participation

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Nearly 1 in 3 households in the middle of the income scale faced times when they couldn't pay the bills. While hardship and other economic strains are particularly common among households with low incomes, they can strike a wide range of households for a variety of reasons. Over the three years from 2014 through 2016, not only did the majority of lower-income households with children face times when they couldn't afford food or pay their housing or utility costs (55 percent of the poorest one-third of households with children ranked by annual income) but also 31 percent of those in the middle third faced one or more of these challenges. (See Figure 2.) This could include, for example, a middle-income family that saw their income drop due to a temporary job loss the next year and was unable to keep paying its mortgage, or a family with an illness and high medical bills that created financial strain.

Households of color were more likely to face times when they couldn't make ends meet. This reflects past and present discrimination in areas such as employment, housing, and education, which makes people of color more likely to have low incomes and less likely to have wealth to fall back on when their income falls or they face new expenses. In the three years from 2014 through 2016, 49 percent of all Black and 42 percent of all Latino households were sometimes unable to pay for adequate food, shelter, or utilities, compared with 23 percent of white households. Figures were higher for households with children, including 53 percent of Black and 46 percent of Latino (as well as 28 percent of white) households with children.

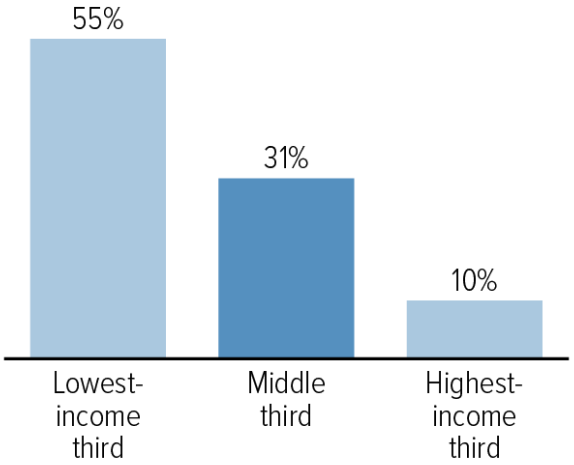
Income volatility puts more households at risk of hardship, underscoring the need for policies that can help families make it during tough times. While 14 percent of households with children had annual cash income below the poverty line in an average year over 2014-2016, *24 percent* experienced incomes this low in at least one of the three years. Examining an even longer period would likely show higher cumulative experiences with poverty and hardship. Between birth and their 18th birthday, nearly 39 percent of U.S. children have at least one year when their family's earnings and other cash income are below the official poverty line, according to an Urban Institute analysis.[3]

The high cost of housing and child care and gaps in public policies leave many households struggling to make ends meet. Over the 2014-2016 period, 39 percent of all renter households (with or without children) paid more than half of their income for rent in at least one year. A key reason so many households struggle with rent is that just 1 in 4 households that qualify for housing assistance receive it because funding is too low.

FIGURE 2

Hardship Also Widespread Among Middle-Income Families

Share of households with children that sometimes could not afford necessities over 2014-2016



Note: Necessities = food, rent or mortgage, utilities.

Source: CBPP analysis of 2014-2016 Survey of Income and Program Participation

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Child care is also expensive, and parents with young children are often just starting out in the labor market and so their earnings are lower than they will be when the children are older. Over the 2014-2016 period, nearly a quarter (23 percent) of households with children paid at least 10 percent of their income for child or dependent care in at least one year. The cost burden was far higher for some families. Again, lack of public investment is a key reason so many families struggle. Only a small share of children eligible for child care assistance receive it.

In addition, millions of workers lack access to paid family and medical leave, putting their households at risk of financial insecurity or instability when a worker needs time off work to care for a new baby or ailing family member or becomes seriously ill. The United States is alone among similarly wealthy countries in its lack of a national paid leave program.

Many jobs pay low wages. One in 5 jobs paid a below-poverty wage in 2019, or too little to lift a full-time year-round married worker with two children above the official poverty line.[4] More than 40 percent of workers in 2020 were paid less than $18 an hour.[5]

Economic insecurity spans regions, races, household types, and rural/metro areas. In every part of the country and for every family type, a notable share of households with children could not afford adequate food, shelter, or utilities in one or more of the three years, including:

- 33 percent of northeastern, 37 percent of southern, 33 percent of midwestern, and 34 percent of western households with children;
- 53 percent of Black, 46 percent of Latino, and 28 percent of white households with children;
- 27 percent of married-couple households with children and 51 percent of unmarried or spouse-absent households with children;
- 41 percent of households with children in rural (non-metropolitan) areas and 34 percent in metropolitan areas; and
- 35 percent of all households with children and 26 percent of childless households.

Lack of health coverage creates hardship for individuals and families, reducing access to needed care and straining family budgets. The U.S. entered the pandemic with nearly 30 million people uninsured. While the Affordable Care Act (ACA) markedly increased health coverage in the years leading up to the pandemic, many remain uninsured — particularly low-income adults, who are more likely to lack coverage than children (where public programs have gone further in assuring coverage.) Adults lacked coverage for a variety of reasons, including, but not limited to:

- More than 2 million adults with incomes below the poverty line lacked coverage because their state refused to adopt the ACA's Medicaid expansion, effectively locking them out from any affordable coverage option.
- Many adults eligible for coverage in the ACA marketplace did not enroll because subsidies were inadequate and coverage remained unaffordable.

Another reason some adults were uninsured is that they lacked a documented immigration status and thus were ineligible for Medicaid and marketplace subsidies. Changes in immigration and health policies are needed to address this important group.

People who are uninsured are less likely to receive preventive services and treatment for chronic illnesses and are more likely to skip a doctor visit, avoid filling a prescription, or otherwise go without care they need. They also are more likely to have difficulty paying medical bills and to accumulate debt, deplete their savings, or experience other negative financial effects as a result.[6]

Policies in House Build Back Better Bill Would Improve Economic Security, Help Children Thrive, and Broaden Opportunity

The investments in the House Build Back Better bill reflect proven approaches that would help families make ends meet; support children's healthy development; address the housing affordability crisis; and help workers gain the skills they need to succeed in today's economy. While a compromise bill will likely be smaller in scope and size, the strong evidence underlying these policies shows that substantial positive impacts can be achieved with these kinds of policies.

Helping parents make ends meet through the expanded Child Tax Credit. Build Back Better would permanently extend a provision of the 2021 American Rescue Plan making the Child Tax Credit "fully refundable," meaning that children in families with the lowest incomes receive the same amount as children in higher-income families. Previously, 27 million children — including roughly one-third of all children,[7] about half of Black and Latino children, and half of children in

rural areas — received less than the full credit or no credit at all because their families' incomes were too low.[8] Full refundability marks an important step in reducing racial disparities in income and poverty rooted in this nation's long history of racism and discrimination, which has created large gaps in both opportunities and outcomes in education, employment, health, and housing.

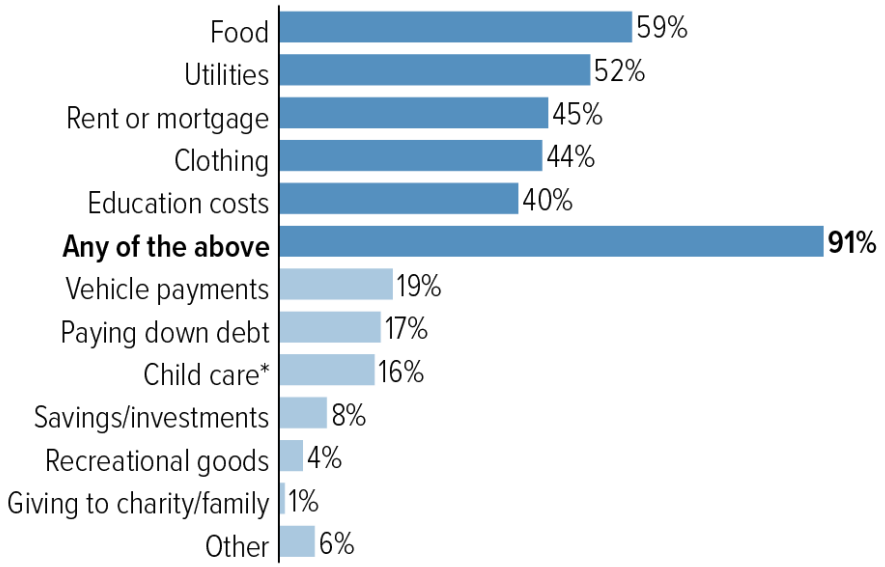
Build Back Better would also extend for one year the Rescue Plan's other Child Tax Credit improvements: raising the maximum credit to $3,600 for children under age 6 and $3,000 for older children, including 17-year-olds for the first time, and providing advance payments on a monthly basis.

The Rescue Plan expansion, which boosted Child Tax Credit benefits for more than 65 million children, has been a remarkable success. The vast majority of families with incomes under $35,000 spent some or all of their monthly payments on necessities — housing, food, clothing, and utilities — and education.[9] (See Figure 3.) If the expansion is continued, it is projected to reduce annual child poverty by more than 40 percent as compared to child poverty levels in the absence of the expansion.

FIGURE 3

Families With Low Incomes Spend Expanded Child Tax Credit on Most Basic Needs, Education

Percent of households with incomes below $35,000 who spent their credit payments on:



*Percent of households with child(ren) under age 5.

Note: Education costs include school books and supplies, school tuition, tutoring services, after-school programs, and transportation for school. Household income is in 2020. Figures are for households who reported receiving a Child Tax Credit payment in the last 30 days in data collected July 21–September 27, 2021.

Source: CBPP analysis of U.S. Census Bureau Household Pulse Survey public use files for survey weeks 34-38

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Making the Child Tax Credit fully available on a permanent basis to families with low incomes would improve children's lives in the near and long term and benefit society overall. Last September, more than 450 economists endorsed permanently expanding the Child Tax Credit, including making it fully available to children in families with low incomes: "a permanently expanded CTC would yield tremendous immediate and long-term benefits for children and their families," they explained.[10]

While permanently extending the *full* Rescue Plan expansion may be too expensive in a final bill, making the full credit available to children in low-income families and making other improvements should be a priority and can be accommodated even in a scaled-back bill.

Supporting children's development and families' economic well-being with pre-K and child care. Build Back Better would provide substantial funding for states to offer free preschool education to all 3- and 4-year-olds and to make child care affordable to all families with low or middle incomes (once the program is fully in effect). State-funded pre-K programs enrolled only 34 percent of 4 year-olds and 6 percent of 3 year-olds in 2019-2020.[11] In addition, only 1 in 7 eligible children receive federal child care assistance due to lack of funding.[12] Black children have the least access to high-quality child care, and Black and Latino children face the greatest child care affordability challenges.

Robust research demonstrates the positive long-term results from effective early childhood programs. Randomized control trials of small pre-K programs that tracked children over decades show robust effects on high school graduation rates, college enrollment, and adult earnings.[13] Notable research on programs operating at scale, including Head Start and Boston's citywide pre-school initiative, has also shown lasting gains for children.[14] For example, students who won a lottery to enter Boston's city-wide preschool program went on to achieve an 8 percentage point (18 percent) gain in on-time college enrollment and a 5.5 percentage point gain in on-time enrollment in a four-year college. Although findings are not uniform, [15] a preponderance of evidence suggests lasting gains for children from quality pre-K programs. [16]

High-quality child care can also yield lasting benefits for families. Increasing the accessibility and affordability of child care has been shown to boost maternal employment.[17] Parents who don't have access to affordable child care but nevertheless need to work often must rely on lower quality, unstable child care arrangements that have negative impacts on children's development and can lead to lost work hours and increased family stress.[18] Several studies document positive long-term educational and developmental impacts of high quality child care, especially for disadvantaged children. A 20-year longitudinal study, for example, found that attending high-quality child care was consistently associated with higher performance on standardized tests and higher grades.[19]

Quality and design are critical in the context of early childhood programs,[20] and Build Back Better's grants would require preschool and child care programs to make significant investments in quality, including high standards for curriculum and child development; adequate pay, training, and opportunities for advancement for staff (who, particularly in the context of child care, are often badly underpaid, resulting in high turnover); effective use of data for quality improvement, and strong family engagement.

Helping more households afford housing. Build Back Better would provide large investments to make housing more affordable, including funding for about 300,000 new Housing Choice Vouchers to help people with low incomes rent housing of their choice in the private market.

Studies show that vouchers sharply reduce homelessness, housing instability, and overcrowding. And because stable housing is crucial to many aspects of a family's life, vouchers have numerous other benefits. Children in families with vouchers are less likely to be placed in foster care, switch schools less frequently, have fewer behavioral problems, and are likelier to exhibit positive social behaviors such as offering to help others. Vouchers also give families greater choice about where they live; when families use vouchers to move to lower-poverty neighborhoods, their children are more likely to attend college and earn more on average as adults.[21] And vouchers provide stable housing for people experiencing homelessness and support seniors and people with disabilities, many of whom face serious housing affordability and access challenges.

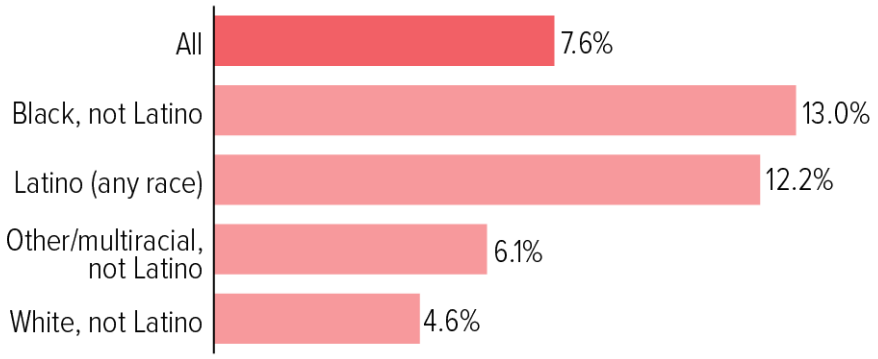
Yet vouchers and other rental assistance only reach 1 in 4 eligible low-income households due to inadequate funding, and there are long waiting lists for assistance. The vouchers in Build Back Better would address part of this unmet need, helping nearly 700,000 people, including about 274,000 children, 76,000 seniors, and 138,000 people with disabilities, live in stable, affordable homes. An estimated 70 percent of those assisted would be people of color, who are far likelier to experience homelessness, eviction, and overcrowding due to long-standing discrimination in housing, employment, and other areas.[22] People in a wide range of communities would benefit: 36 percent of vouchers are used in suburban areas and 11 percent in rural areas.[23]

Addressing food insecurity among children. Build Back Better would strengthen proven child nutrition programs to help address a long-standing problem that worsened during the pandemic: many children — disproportionately those who are Black or Latino (see Figure 4) — face periods of food hardship, which can cause lasting damage to children's health and learning.[24]

FIGURE 4

Children's Food Insecurity Higher in Black and Latino Households

Share of households with children who are food insecure, 2020



Source: U.S. Department of Agriculture, Economic Research Service

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To prevent the usual increase in children's food hardship in the summer when school is out, Build Back Better would make summer grocery benefits available nationwide to children who receive free or reduced-price school meals during the school year.[25] It would do so through a Summer Electronic Benefit Transfer program (Summer EBT), modeled on earlier successful demonstration projects and the Pandemic EBT (P-EBT) program,[26] created in 2020 to provide grocery benefits to families to replace meals missed while their children were not at school or child care. Receipt of P-EBT benefits reduced the share of SNAP households where children experienced very low food security by 17 percent and reduced food insufficiency among SNAP households by 28 percent.[27]

Build Back Better also would allow more schools that serve many low-income children to offer meals at no charge to all students by expanding the existing Community Eligibility Provision.[28] Community eligibility eliminates the need for schools to collect and process meal applications, raising participation and reducing administrative burdens on schools and families. It also reduces the stigma sometimes associated with free or reduced-price school meals. Community eligibility is linked to a range of positive outcomes for students, including better academic performance, lower suspension rates, and more students with a healthy body mass index.[29]

Investing in workers' skills and increasing access to college. Workers experienced unprecedented impacts from the pandemic, but not equally: the lowest quarter of wage earners suffered 80 percent of the job losses between February 2020 and February 2021.[30] Even during more normal economic times, many people don't have the skills they need to access jobs that pay adequate wages and have opportunities for advancement. Build Back Better would take steps to address this by providing almost $50 billion to expand workforce programs that prepare individuals for quality jobs that pay higher wages and to make college more affordable, especially for students of color, who face barriers to college attendance and attend at lower rates than white students. These investments include:

- **Industry and sector employment grants ($10 billion).** These funds would enable the departments of Labor and Education to expand industry or sector partnerships that expand employment and training activities in high-wage or in-demand sectors and occupations.
- **Workforce investments related to climate resilience and mitigation ($4.3 billion).** The Department of Labor would use these funds to support pre-apprenticeship, apprenticeship, re-entry, and youth programs to provide career opportunities in climate-related occupations.
- **Pell Grants ($11 billion)**. Build Back Better would increase the maximum grant by $550 (from $6,495 to $7,045 for the 2021-2022 academic year). Pell Grants alleviate some of the financial barriers to completing an associate or bachelor's degree. They are especially important for students of color, whose families have lower income and less wealth than white students, on average.
- **Colleges and universities dedicated to serving historically underserved students ($9 billion).** The increased funding would help maintain the legacy behind the formation of Historically Black Colleges and Universities, Hispanic-Serving Institutions, Tribal Colleges and Universities, and other Minority Serving Institutions, which have a shared goal of educating students who have long dealt with inequitable access to higher education.

These investments would create new opportunities for people across the country, while also including provisions to expand opportunities and access to quality jobs for people whom structural

inequities, underinvestment, and racism have most affected: women, people with disabilities, youth disconnected from school and work, young adults, workers of color, and people affected by the criminal legal system.

Boosting the income of people paid low wages. Build Back Better would extend for one year the Rescue Plan's important changes to the Earned Income Tax Credit (EITC) for working adults not raising children. It raised both the maximum credit for these workers (from roughly $540 to roughly $1,500) and the income cap for them to qualify (from about $16,000 to at least $22,000). It also expanded the age range of eligible workers without children to include younger adults aged 19-24 (excluding students under 24 who are attending school at least part time), as well as people aged 65 and over.

This expansion would continue to boost the incomes of more than 17 million working adults without children who do important work for low pay. They include nearly 5.8 million people aged 19 to 65 whom the federal tax code would otherwise tax into, or deeper into, poverty — the lone group for whom that happens — in large part because their EITC would otherwise be too low.

Build Back Better Would Increase Health Coverage, Make It More Affordable

Build Back Better would deliver on the promise of the ACA by expanding health insurance to millions of uninsured people and improving affordability for millions more, making further strides toward universal coverage, and reducing racial, ethnic, and geographic disparities in coverage.[31]

The ACA cut the nation's uninsured rate nearly in half, but nearly 30 million non-elderly people — including millions of working people, parents, people with disabilities, and others — remained uninsured prior to the pandemic. People with low incomes are more likely to be uninsured than those with higher incomes. People of color make up a majority of the uninsured because they face structural barriers such as income and wealth inequities and are disproportionately likely to work in lower-paid jobs, which often don't come with health benefits.[32]

Build Back Better would quickly deliver coverage to more than 2 million uninsured people with incomes below the poverty line who are in the Medicaid "coverage gap" — they live in one of 12 states that have failed to adopt the ACA's Medicaid expansion. People in the coverage gap are adults of varying age, race, and ethnicity; in 2019 some 60 percent were people of color, reflecting long-standing racial and ethnic discrimination.[33] An estimated 445,000 people in rural areas fall into the coverage gap; in fact, the rural uninsured rate was nearly twice as high in *non*-expansion states as in expansion states (21.5 vs. 11.8 percent) in 2019.[34]

Build Back Better would close the coverage gap by allowing people with incomes below the poverty line who are not eligible for Medicaid under their state's rules to qualify for premium tax credits and to pay no premium for marketplace plans through 2025. This step would deliver coverage to many older adults and people with disabilities or chronic health conditions. It also would help reduce high rates of deaths and severe health complications among Black people who give birth by extending coverage to more people before they become pregnant.[35] And it would improve the financial stability of health systems that many people of color rely on, including rural hospitals, safety net hospitals, and community health centers.[36]

Build Back Better would also extend the Rescue Plan's premium tax credit improvements, which eliminate or reduce premiums for millions of marketplace enrollees, ensuring that people spend no more than 8.5 percent of their income on premiums and that people with low incomes pay far less. These improvements have already boosted marketplace enrollment: a record-breaking 14.5 million people have signed up for 2022 plans.

Build Back Better includes several other measures to strengthen health coverage and access by:

- ensuring all pregnant people enrolled in Medicaid and the Children's Health Insurance Program (CHIP) can maintain coverage for 12 months after the end of pregnancy;
- ensuring all children and youth enrolled in Medicaid and CHIP can stay enrolled for 12 months at a time to reduce the risk of gaps in coverage;
- increasing access and quality for Medicaid home- and community-based services;
- providing Medicaid coverage of health services for people 30 days prior to leaving jail or prison, which could help connect them to the care they will need in the community; and
- permanently increasing federal Medicaid funding for the five U.S. territories.[37]

Build Back Better Is Fiscally Responsible

Policymakers have committed to offsetting the costs of Build Back Better's new investments, and the legislation includes a series of sound measures to do so, including revenue increases and savings from lowering the costs of prescription drugs, which would benefit both consumers and the federal budget. Build Back Better would raise revenues from wealthy households and profitable corporations (in particular, overseas corporate profits) and from improved tax compliance. All of these offsets are important policies on their own, as well as broadly popular with the public.

Because Build Back Better consists primarily of long-term investments paired with offsets, it differs from earlier stimulus and relief measures, which added substantially to near-term budget deficits and aggregate demand for goods and services. While Build Back Better would contribute modestly to consumer demand in 2022, the impact would be dwarfed by the negative fiscal drag from the expiration of earlier stimulus measures, as Federal Reserve Chair Jerome Powell explained after the January Federal Open Market Committee meeting: "fiscal policy is going to be less supportive of … growth this year, not of the level of economic activity but the fiscal impulse to growth will be significantly lower."[38] Many leading economists have concluded that Build Back Better would not make the Fed's task of controlling inflation more difficult and should not stand in the way of enacting the needed investments, which would expand the economy's capacity to produce goods and services in the longer term, strengthen economic growth, and ease future inflationary pressures.[39]

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[1] CBPP analysis of the Census Bureau's March 2019 Current Population Survey using the Supplemental Poverty Measure. Figures are for 2018, the last reliable year of data before the pandemic. (The COVID-19 health emergency interrupted the Census Bureau's collection of 2019 data, scheduled for February through April of 2020.)

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[3] Caroline Ratcliffe, "Child Poverty and Adult Success," Urban Institute, September 2015, https://www.urban.org/sites/default/files/publication/65766/2000369-Child-Poverty-and-Adult-Success.pdf. The analysis shows data only for all, Black, and white children.

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[10] Letter from Hilary Hoynes, Diane Schanzenbach, and other economists to Senate Majority Leader Chuck Schumer *et al.,* September 15, 2021, https://static1.squarespace.com/static/5ecd75a3c406d1318b20454d/t/6148f183c62fb147d0d25138/1632170373799/Economist+CTC+Letter+9-14-21+430pm.pdf.

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[12] Administration for Children & Families, "ACF Releases Guidance on Supplemental Child Care Funds in the American Rescue Plan," June 11, 2021, https://www.acf.hhs.gov/media/press/2021/acf-releases-guidance-supplemental-child-care-funds-american-rescue-plan.

[13] HighScope Educational Research Foundation, "Perry Preschool Project – Study Results," https://highscope.org/perry-preschool-project/; Francis A. Campbell *et al.,* "Adult Outcomes as a Function of an Early Childhood Educational Program: An Abecedarian Project Follow-Up," *Developmental Psychology,* Vol. 48, No. 4, January 16, 2012, https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3989926/; Jorge Luis García *et al.,* "The Dynamic Benefits of Early Childhood Education," NBER Working Paper 29004, July 2021, https://www.nber.org/system/files/working_papers/w29004/w29004.pdf?utm_campaign=Economic%20Studies&utm_source=hs_email&utm_medium=email.

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