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Not a Good “Public Good”? Human Capital Legacy of China’s Grand Canal, 1368-2015

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The Chinese Grand Canal (a UNESCO heritage) was constructed in the 5th century BC onwards. It had become the main way for transportation of goods since the 7th century AD and was abolished in 1855. By the 13th century it consisted of more than 2,000 km of artificial waterways, linking five of China’s main river basins between Beijing and Hangzhou (in Zhejiang province). The Empire changed the waterways of Huang River over the period 1493-1538 in order to protect transportation of grains and weapons via the Grand Canal, but this “intervention” incurred much more floods/droughts than before around certain areas of the Huang River. The paper uses the Grand Canal construction to identify in the long-term and unintended impact on human capital of a “public good” for which the government tries to pursue even by scarifying some people’s interests.

Human capital in imperial China is measured at the county-level by the number of candidates succeeding in the Civil Service Exam which remained as the single national exam to select bureaucrats for 1,300 years. We code about 22,000 successful candidates’ profiles from a number of historical archives, books and royal records between 960 BC and 1910. These data cover out of 154 counties both before and after the waterway change caused by the construction of Grand Canal. Human capital in contemporary China is also measured at the county-level but by the years of schooling in contemporary China (1982, 1990, 2000, 2010 and 2015 when the Census was conducted). The difference-in-difference estimate suggests 0.4 more successful candidates per decade for the county “protected” by the Grand Canal at the expense of the “sacrificed” counties’ deterioration of -0.47 in human capital development. Both benefits and costs are likely to persist into the contemporary period over centuries.