

# Corruption and Talent Allocation<sup>\*</sup>

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## Abstract

Does political corruption shift talent allocation across public and private sectors? I answer this question by exploiting a randomized anti-corruption audit program in Brazil together with rich micro-data on educational and labor market outcomes of college students. Using a generalized difference-in-difference research design, I find that students in audited municipalities are less likely to choose majors that are more tailored toward public sector careers, such as business administration and law. Moreover, tracking students to the labor market demonstrates that audits lead to a lower share of high-ability students working as civil servants. Finally, I provide evidence that the effects of audits on equilibrium talent allocation can be attributed to dampened perceptions of rent-seeking as well as motivation crowding out. Taken together, these findings highlight an understudied negative consequence of corruption on the economy: the distortion of a society's talent allocation towards rent-seeking in the public sector.

**JEL classification:** D73, H83, I25, J24

**Keywords:** Corruption, Audits, Talent Allocation, Major Choice, Public Sector

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