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Title: Oil-rent, rent-seeking and the allocation of talents, evidence from the redistribution of royalties across Colombia

In this paper we show quasi-experimental evidence on how the rent from natural resources affects the allocation of its most valuable resources: human capital. We use Colombian municipality level data and an event study to shed light on one of the causes of the resource curse observed in countries with poor institutions. In 2011, Colombia announced a reform that completely changed the distribution of oil rents among municipalities. It shifted from a remuneration that fell in the hands of the producers to one that would be much more widespread across all municipalities in the country. We investigate the effect on university students’ career choices of this sudden change in oil revenues. Following previous literature, we classify higher careers into engineering and social sciences (business, accounting, law and economics). Workers with Social science careers are more likely to occupy government positions, hence to benefit from both formal and informal windfalls from the oil resources. We use an instrumental variable approach that makes use of the exogenous variation generated by the reform and by oil prices. We show that an increase in royalties leads to an increase in students opting for social sciences compared to engineering. This is potentially harmful in itself, given previous findings that engineering contributed to growth more than social sciences. Perhaps more worrying, we find that the effect of rent on the students’ career choice is significantly stronger in municipalities with more corruption allegations in the years before the reform, indicating a choice that is partially driven by rent-seeking. We provide a theoretical model that replaces the dichotomy between unproductive rent-seekers and productive workers by a more nuanced setup where all contribute to production, but the better access to the rent of some professions lead to its excess and thus to its lower marginal productivity. Our findings provide new micro-evidence and theoretical analysis of one of the most detrimental consequences of corruption: it diverts the best talents away from productive activities towards activities with better rent-seeking opportunities, an effect that increases with the size of the cake offered by natural resources.