

1. *E Pluribus Prosperitas*: on cultural diversity and economic development

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1.1 PEOPLE ON THE MOVE

We live in the age of migration: more than 3 per cent of the world's population is nowadays recorded as an immigrant, and this percentage is likely to rise in the future because of our open and globalizing economies. It is noteworthy that – in contrast to the past centuries and decades in which migration was a geographically selective process (witness typical migration countries such as Canada, the USA, South Africa, Australia or New Zealand) – migration is at present a world-wide process, with great impacts on both the sending and receiving countries (see e.g. Nijkamp et al., 2012).

A good illustration of the above-mentioned trend can be found in Europe, which has faced significant migration-related population dynamics over the past 50 years. According to EUROSTAT (2011), net migration accounted for approximately 71 per cent of the total population increase in Europe in 2010, mainly as a result of the arrival of labour migrants in the search for more favourable economic opportunities. In 2010, Europe appears to have accommodated more than 32.5 million migrants, a significant share of them originating from non-EU member states. Migration motives have changed quite a bit over the years; from motives stemming from political suppression and (de)colonization in the past, to economic and family reunification motives nowadays. The nature of migration has changed quite a bit as well, with various forms of temporary and circular migration complementing, or substituting for, conventional one-way permanent migration (e.g. Poot et al., 2008).

In the context of the European immigration policy, reference is often made to the Schengen Agreement (1986) and the Maastricht Treaty (1992). The Schengen Agreement essentially provides a communitarian perspective on open borders, but also indirectly covers a common immigration policy in terms of joint border control, work permits, family reunification, visa requirements and asylum rules. These views and agreements were later incorporated into the Maastricht Treaty as part of a

broader European integration process (see also Convey and Kupiszewski, 1995; Zaiotti, 2007).

The socio-economic consequences of foreign migration – not only in Europe, but also elsewhere – may be modestly to significantly positive for most countries (see Nijkamp et al., 2012), but there is still a great deal of uncertainty about the socio-cultural effects of immigration on the host country. Praise for a multicultural society has sometimes been replaced by political demands for the quick assimilation and integration of immigrants. Especially in countries and regions in Europe with relatively high migrant shares, strong opposition has arisen to liberal immigration policies. Apparently, we observe an increasing ‘cultural clash’ regarding foreign migration in Europe, partly on economic grounds and partly on socio-cultural grounds.

Cultural diversity and its socio-economic impacts form the centrepiece of the present book. The perspective adopted is global in nature, but the studies in this book cover various specific countries, regions and cities. The emphasis lies predominantly on cultural diversity resulting from foreign migrants in host countries in Europe and North America. In many cases, a quantitative (statistical-econometric) approach is adopted. These have in fact been less prominent to date in the overall literature on cultural diversity.

1.2 A CULTURAL DIVIDE?

Culture may, in a broad sense, refer to civilization, but in a more focused sense to a collective ‘programming’ of the human mind which can lead to distinct features of groups (see Hislop, 2009; Hofstede, 1983, 1984). Practically speaking, culture comprises common value systems (including religion), historical traditions, ethnicity, life styles, arts, cuisine and language; all such characteristics may distinguish some groups from others. The related concept of cultural identity refers to the importance and meaning of recognizable cultural attributes in social practices (see also Boyd and Richerson, 2005; Checkel and Katzenstein, 2009; Muller-Merback, 2002).

The rise in immigration in Europe has prompted a related debate on defining and observing European culture and European cultural identity. The emerging European integration policies have led to many debates on the *raison d'être* of a European cultural identity, but this has not led to a commonly accepted perspective; witness such expressions as: ‘Europe is united in diversity’ or ‘Europe is a dialogue between cultures’ (see also McDonald, 2012).

Culture is thus a multifaceted concept that may unite but also divide people. According to Featherstone (1990), the culture of a nation is a concept which generally emphasizes cultural homogeneity and integration. However, culture distinguishes between population groups, and is hence based on a long-term evolutionary learning mechanism leading to a common – sometimes subjective – understanding or acceptance of distinct group characteristics through which group members can be identified (see also Inglehart, 1970). In the words of Baumann (1999, p. 25), culture is: ‘a collective heritage of a group, that is, a . . . catalogue of ideas and practices that shape both the collective and the individual lives and thoughts of all members’.

It should be noted that culture may manifest itself at different spatial scales, e.g. from local levels (e.g. ‘village or community attachment’) to global levels (e.g. ‘attachment to Europe’). According to Reif (1993), the local or regional feelings (‘loyalty’) regarding cultural identity are often stronger than those expressed at a national or international level. This is clearly explained by Hofstede and Hofstede (2005) who offer a multi-layered interpretation of cultures. People may be a member of different cultural groups at the same time, depending on the distinguishing attributes. This is called ‘mental programming’, and leads to different categories or levels of culture.

Common features of a given group necessarily mean the existence of discriminating or distinct features with respect to other groups. Clearly, these features may manifest themselves in different dimensions. For example, from a religious-cultural perspective we observe nowadays a rising concern about ‘Islamophobia’, a phenomenon referring to: ‘indiscriminate negative attitudes or emotions directed at Islam or Muslims’ (see Bleich, 2011, p. 1581). Such a categorization may create socio-cultural barriers rather than integration, assimilation or intergroup contacts (cf. Hopkins and Kahani-Hopkins, 2006).

The impact of culture (or culturally determined groups) on society in general already has a long history in sociology and economics dating back to scholars like Veblen (1919) and Weber (1930). In the neo-Weberian tradition, the impact of culture on development is generally supposed to run through human activities and choices. In this conceptualization of culture, it is assumed that local or regional values, attitudes and beliefs shape the behaviour of the local or regional population. Culture is then a kind of proto-institution impacting on social and cultural capital and on the production and consumption mechanisms in a certain area (see Tubadji, 2012).

Given the above description of what culture constitutes and how it impacts on individuals’ frames through which actions and choices are

made, it is an intriguing question whether cultural diversity or cultural heterogeneity caused by immigration exerts a positive influence on local or national welfare measured in terms of (growth in) income or employment. This is a core issue to be addressed in the present book.

1.3 MIGRATION AS A SOURCE OF CULTURAL DIVERSITY

Labour migration – temporary, structural or circular – can generate a triple-win situation: for the country of origin through, for example, abatement of unemployment and through remittances; for the host country if, among others, appropriate skills are gained, labour markets are flexible and investment is facilitated; and for the immigrants themselves if migration leads to, for example, higher income and better career opportunities. Clearly, the distribution of such gains may be rather unequal across people (e.g. Brunow et al., 2014) and across places (e.g. Gorter et al., 1998); for instance, some regions in the country of origin may lose qualified workers, some regions in the destination country may face ghetto formation, and immigrants may cluster in specific regions in the country of destination. Cross-border movements may have a welfare-enhancing effects at a macro level, but open borders may prompt more cross-cultural tensions and may lead to harmful segregation trends in many cities.

It is noteworthy that migration movements are based on push and pull factors that highlight the role of multi-layer disequilibria between labour markets in cities, regions or countries in terms of supply/demand of labour and corresponding wage differentials. There is a multiplicity of conceptual and operational frameworks that ‘play some role in accounting for international migration in the contemporary world, although different models predominate in different phases of the migration processes’ (Allen et al., 1998, p. 28).

In general, a particularly important and distinct feature in international migration – in addition to obvious characteristics like ethnicity, language or religion – appears to be education. The level and nature of skills, routines and competences is becoming an increasingly important element in international migration movements. Talent is increasingly becoming scarce in a global world, but is very unevenly spread over countries and regions. In the context of global economic dynamics, it is therefore likely that talent migration will continue to increase.

Unrestricted international and interregional labour mobility is a key equilibrating mechanism in a free market. In this context, Nobel laureate Mundell (1961) has even argued that high labour mobility is a crucial

factor in a single currency area (see also Kancs, 2011) like the European Monetary Union. A smooth functioning of labour markets is essential for reaping the benefits of foreign migration (Barrell et al., 2010). An important question is of course whether migrants and natives are substitutes or complements as production inputs and, similarly, whether different migrant groups are substitutes or complements for each other.

Migrants from some backgrounds may adopt the dominant culture of the host society quickly but others predominantly maintain the culture of their home country and pass this culture on to their children and subsequent generations. The host society may of course also adopt aspects of foreign cultures. Individually, people may feel attached to several cultures. Social capital as well as the bonding and bridging of people in communities with many diverse cultures is of great importance here (see e.g. Putnam 2000).

It goes without saying that cultural diversity – prompted by foreign migration in terms of age, gender, education, job, income, language, religion, location, etc. – may have significant impacts on the host economy. The quantitative evaluation of such socio-economic impacts on the national, regional and local economy has recently been coined MIA (migration impact assessment). A description and presentation of various methodologies in this context can be found in Nijkamp et al. (2012). The growing diversity of many countries' populations due to immigration may affect the economy through different channels. Workers from different cultural backgrounds might have complementary skills that enhance problem-solving abilities and contribute to new ideas and aspirations. Migrants and their offspring can also make a major contribution to vitality and entrepreneurship in the city.

As mentioned above, the interaction of workers from different cultural backgrounds with the host population might increase productivity due to positive externalities like knowledge spillovers. This is only an advantage up to a certain degree. When the variety of backgrounds is too large fractionalization may incur excessive transaction costs for communication which may lower productivity. Diversity not only impacts the labour market, but may also affect the quality of life in a location. A tolerant native population may value a multicultural city or region because of an increase in the range of available goods and services. On the other hand, diversity could be perceived as an unattractive feature if natives perceive it as a distortion of what they consider to be their national identity. They might even discriminate against other ethnic groups and they might fear that social conflicts between different foreign nationalities are imported into their own neighbourhood. Because of the spatial selectivity of migration, the impacts of the aforementioned mechanisms are likely

to be amplified at the regional level. Ultimately, if one is interested in a net impact of cultural diversity, such a net effect depends on the relative strengths of these different effects.

From a geographic perspective, most immigrants appear to seek an urban environment, as cities offer more job opportunities, ethnic support systems, local amenities and varied cultures than other locations. Consequently, most social issues often associated with immigrants – segregation, assimilation, ghetto formation, unemployment, etc. – can be found in cities, especially in larger metropolitan areas.

The heterogeneity within and between immigrant groups in urban areas has prompted a series of research and policy questions. The first prominent issue was the socio-economic impact of migrants in the city, in particular, on local housing and labour markets as well as on the use of public facilities (e.g. health care, education). Given the ethnic and socio-cultural variety in migrant groups, the issue of cultural diversity has in recent years come up as the next important research and policy issue. Issues like social capital among migrant groups (cf. Bourdieu, 1986; Putnam, 2000), as well as trust and social interaction (cf. Fukuyama, 1996; Portes and Sensenbrenner, 1993) have assumed a predominant position in the research and policy arenas. This new wave of attention on the position of migrants, mainly in large agglomerations, has created a rising wave of interest in issues like cultural diversity and cultural identity, not as a sociological phenomenon per se, but increasingly as an economic impact issue.

1.4 ORGANIZATION OF THE BOOK

If the concepts of diversity and identity – in association with often rather intangible notions such as social inclusion, integration, multiculturalism, participation or assimilation – can be measured, then the next step is to make an economic assessment of the implications of a culturally diverse urban or regional economy. This challenging question has motivated the aims and scope of the present volume.

Despite many advances, recent research still leaves many questions unanswered and this volume aims to address some of these key questions. For this purpose, the chapters have been organized in three different parts: firstly, ‘Socio-economic determinants of cultural diversity’; secondly, ‘Cultural segregation and sorting’; and thirdly, ‘Socio-economic impacts of cultural diversity’. These three parts are outlined successively in the following three sub-sections (1.4.1 to 1.4.3).

1.4.1 Socio-economic Determinants of Cultural Diversity

This section addresses different aspects of cultural diversity and how cultural differences can lead to economic inequality between natives and immigrants, or among immigrants. A fundamental issue is the measurement of cultural diversity. Chapter 2 starts with highlighting some critical issues involved in calculating and applying measures of cultural diversity. Based on different perspectives and features of the available data, a great variety of diversity indicators have emerged, some of which are used throughout many of the chapters in this volume. In this chapter, Nijkamp and Poot address the growing need for diversity measures that incorporate spatial dependency and argue for a better motivation of diversity measures based on behavioural theories.

The possible struggle immigrants face in the host country between maintaining their own culture and assimilation into the host country's culture, is addressed in Chapter 3. In this chapter, Abdulloev, Epstein and Gang present, and empirically illustrate, a theoretical model in which the assimilation of immigrants is measured by different ethnic goods immigrants choose to consume. Immigrant groups that consume ethnic goods that are considered to be isolating, like dressing and eating differently, may end up having lower incomes than the immigrants who consume non-isolating ethnic products, like donations to schools or religious institutes.

One very prominent feature of cultural diversity is the difference in religions. In Chapter 4, Aleksynska and Chiswick show that immigrants in Europe tend to be more religious than the native population. The underlying explanations for these observed differences can be found in both individual as well as environmental characteristics of the country of origin and destination. However, the religiosity of immigrants is found to decline with duration of stay in the country of destination, indicating that immigrants tend to adapt to life in the destination country.

The final chapter in this part of the book deals with an issue that is apparent in many immigrant-receiving countries: the differences between the native-born and the immigrant population. In many cases the native-born population is the majority and represents the majority culture. However, in some cases there is a minority indigenous native-born population. Chapter 5 provides a case study of the latter situation by giving a descriptive overview of the economic status of the Aboriginal population in Saskatchewan, Canada. In this chapter, Olfert and Lobach describe that, in general, the Aboriginal population is not well integrated in the local economy. This becomes apparent when looking at indicators of well-being: unemployment rates, poverty levels, education levels, and social and health indicators. Policy recommendations are given that aim at facilitating

the integration of the Aboriginal population in the economy in ways that can potentially decrease economic and social inequality and be of mutual benefit to the Aboriginal and non-Aboriginal populations.

1.4.2 Cultural Segregation and Sorting

In this part of the book, various topics concerning cultural and ethnic diversity and location choices; as well as the impacts of spatial 'sorting' of immigrants are discussed. In Chapter 6, Betz, Olfert and Partridge study the role of cultural diversity in Canadian domestic migration. Given the literature that states that cultural diversity can both be attractive as well as unattractive for individuals, the diversity of the local population might play a role in migration choices. Controlling for demographic, economic, geographic and amenity variables, Betz, Olfert and Partridge find that Canadians' migration choices are negatively related to the cultural diversity of locations. However, they find that there is some (albeit weak) evidence that this effect appears to be diminishing over time.

Return migration is the topic of Chapter 7. In this chapter, Pungas, Toomet and Tammaru use detailed micro-data on Estonian immigrants in Finland to assess the relationship between the education level of immigrants and their intentions to return. The findings in this chapter indicate that the level of education is not related to the wish to return. However, immigrants who work below their training express higher intentions to return back home. Additionally, Pungas, Toomet and Tammaru find that the education obtained in the host country might improve the future socialization prospects of immigrants.

Chapter 8 provides a comparative review of case studies on the role of ethnicity in the location of crime in the cities of The Hague (the Netherlands), and Chicago (USA). In this chapter, Bernasco shows that, independent of jurisdiction, study design, analytical methods employed, and spatial resolution, offenders have a preference to offend in areas that are similar to their area of residence in terms of ethnic composition, and in areas where the majority of the population has the same ethnic background as the offenders.

In Chapter 9, Zorlu and Hartog describe the development of the cultural composition of neighbourhoods in the Netherlands. The analysis indicates that many neighbourhoods in the Netherlands are ethnically and culturally very diverse, with there being fewer specific immigrant neighbourhoods than commonly perceived. The analysis shows that immigrants from non-western origins usually locate in the larger cities. The evidence further suggests an increasing concentration of Moroccans, while Surinamese and Turkish immigrants are found to disperse spatially.

1.4.3 Socio-economic Impacts of Cultural Diversity

In this part of the book, the effect of cultural diversity on innovation and productivity, either in firms or at the city level, is explored from many different angles and geographical locations. In Chapter 10, Brunow and Stockinger look at the relation between cultural diversity and innovation in German firms. The authors differentiate between immigrants' skill levels in their results and find that firms with a more culturally diverse high-skilled workforce are more innovative, but the mere presence of a culturally diverse workforce does not increase innovation. However, overall the most important drivers for innovation are human capital and the resources of the firms.

Chapter 11 explores the effect of the ethnic and gender diversity of the owners, partners and directors of firms on business performance. In this research the impact of sameness, like all-white or all-female top teams, is included as well and shows that distinguishing between different minority groups is important. Nathan finds a small but robust inverse-U relationship between the share of minority ethnic top team members and business performance – especially in terms of process innovation and exports. With respect to gender, the inverse-U relationship also holds for product innovation.

Tubadji and Nijkamp explore the effect of the local culture on knowledge creation in Chapter 12. They find, in a Schumpeterian setting, that local culture affects the emergence of new knowledge, which is a key driver of economic development. Thus, local culture indirectly impacts on local economic development.

As was described earlier, culture shapes individuals' frameworks in which actions are taken and choices are made. In Chapter 13, Osoba explores the relation between risk tolerance, cultural diversity and self-employment in the US. The different state-level measures of diversity – including linguistic diversity and distance – are found to be positively associated with the rate of self-employment. Risk-diversity interactions tend to be negatively associated with self-employment, indicating a negative synergism between the two variables.

Skill-biased immigration laws are thought to have positive effects on the national economy. In Chapter 14 Peri and Shih analyse the impact of foreign-born workers in the fields of Science, Technology, Engineering and Mathematics (STEM) on employment and wages in Canadian labour markets. Differentiating between the educational levels of natives, Peri and Shih find a consistently positive and significant effect of STEM workers on college-educated natives' wages and weaker effects on their employment. The effect on the wages and employment of low-skill native workers is also positive, but smaller.

Chapter 15 addresses undocumented immigrants and remittances. Gheasi, Nijkamp and Rietveld aim to identify the determinants of remittances by this particular group of immigrants in the Netherlands, and find that, in relative terms, low-income workers appear to spend more of their income on remittances than high-income workers. If migrants have children in the host country, they remit considerably less money, whereas if they have children in the country of origin, they clearly remit more. The levels of remittances are affected by the duration of stay.

Finally, in Chapter 16 Möhlmann and Bakens investigate the hypothesis that the positive effect of ethnic diversity on productivity or wages that is often found at the city level, can actually be explained by a positive effect of employee diversity on firm performance. Using estimates of Total Factor Productivity (TFP), Möhlmann and Bakens conclude that this is apparently not the case. If there exists a positive relation between diversity and wages or economic growth on the level of the cities, this is unlikely to be the result of processes at the firm level.

1.5 RETROSPECT AND PROSPECT

Significant cross-country differences in demographic trends and economic development, combined with the low – and potentially further declining – costs of travel and communication, suggest that we may expect further increases in cross-border migration and mobility. This trend will continue to make countries, and particularly cities, more culturally diverse. Societies are affected by the growing cultural diversity in many different ways. The various case studies discussed by the contributors to this edited volume are examples of how cultural diversity affects societies within the realm of socio-economic consequences. They shed light on the micro-economics of diversity in terms of the ‘sorting’ of the native born and migrants/ethnic minorities across labour and housing markets and the corresponding outcomes in such markets (with establishing the causal mechanisms in these market adjustments continuing to be a major research challenge). The contributions in this volume also highlight how there can be negative social impacts of cultural diversity on communities, in terms of, for example, declining social cohesion, trust and participation in community activities, political processes and representation. Such trends can clearly have detrimental impacts on economic outcomes.

Consequently, the notion is emerging that some balance must be found through policies that encourage the positive spillover effects of diversity, while mitigating the potential negative social impacts. Exactly how such balance can be achieved in terms of the actual cultural and socio-economic

make-up of communities, and the rate of change in population composition, remains a major challenge for research. At the same time, a better understanding of the macro-economics of diversity – in terms of impacts on long-run trade, investment, population and economic growth – is also needed. In this context, the emergence of the increasingly important group of self-employed migrants and migrant entrepreneurs is noteworthy. They represent a growing set of economic opportunity seekers (cf. Constant et al., 2007; Kloosterman et al., 2002). Again there may be positive or negative spillovers to the host population, in this case in the form of complementarity or substitution. Complementarity may arise if native shopkeepers – often of a retirement age – cannot find a successor and decide to sell the business to a foreigner. Substitution – or pure competition – may emerge if foreigners enter the same, already fully occupied, economic sector (e.g. the taxi market). A thorough analysis of these phenomena can be found in Sahin (2012).

The perspectives of migrant source countries should also be considered, given the growing importance of linkages between migrant source and destination countries through diaspora. Migrants and culturally defined communities form various networks that have a range of impacts, such as on international trade and on the spatial clustering of migrant groups. In the presence of the growing benefits of urban agglomeration, which the world is witnessing at present, the fact that migrants are generally attracted to the cities contributes to economic growth in migrant-receiving urban agglomerations regions.

The composite presence of migrants with different cultural backgrounds and different levels of skills leads to a ‘potpourri society’ in host countries. Understanding the growing complexity of diversity in societies requires better ways of measuring cultural diversity, taking jointly into account dimensions such as ethnicity, country of birth, religion, language, citizenship, ancestry, visa status, etc. The emergence of ‘big data’ on social and business networks and interactions may contribute to such an endeavour. Furthermore, static frameworks need to be replaced by dynamic ones that account for various change and adjustment processes, including intermarriage and acculturation.

It should be added that the current policy and academic challenges on diversity can have potentially major implications for the public policy debate. The debate in many countries has strongly focused on improving the skill composition of the immigrant flows. In many countries, attempts are made to attract (high-)skilled temporary and permanent immigrants to specific industries. A global competition has emerged for such ‘talent’. However, high-skilled immigrants are not a homogeneous group of people, and recruitment policies should be based on the structural properties

of labour markets. The needs and expectations at the national level, the local level and across sectors should be addressed when designing such immigration policies. The cultural diversity of the immigrants has to date played a minor role in this debate. This is also true in many other areas of public policy, including the education system, public housing, policing and other public services. The cultural diversity field is apparently full of dilemmas and hurdles.

Hence a clear need has been established for an informed debate on the socio-economic implications of cultural diversity, not only from a qualitative perspective, but also from a solid statistical and econometric perspective. In this respect, the contributions in this volume provide a range of, often exploratory, analyses that will hopefully inspire the much needed further widening and deepening of research on socio-economic determinants and the impacts of cultural diversity.

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