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The Labor Market for Influencers

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Introduction

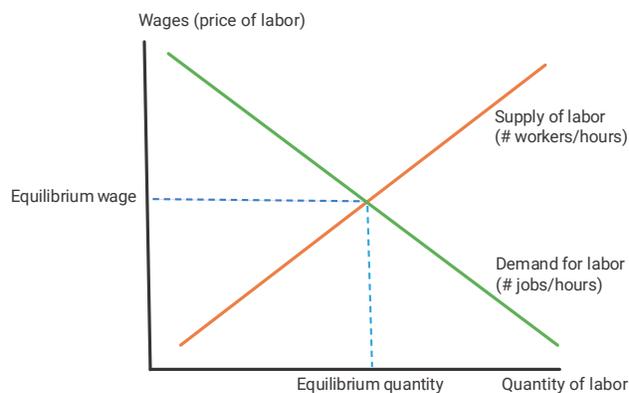
“Social media influencer” is becoming a more-common answer to the question, “What do you want to be when you grow up?” Morning Consult reported that 57% of Gen Z in America would like to be a social media influencer, and 53% described it as a reputable career choice. Today’s professional social media influencers work with luxury brands, perform in super bowl commercials, and receive jaw-dropping wages in exchange for a single social media post. More companies and brands are partnering with influencers as a standard part of their marketing campaign strategies.

The ease with which a person can access social media makes influencing feel like an accessible and viable source of income. But while many dream of becoming a well-paid influencer, most people are not able to make social media influencing their only source of income: Goldman Sachs reported that only about 4% of creators are deemed professionals by earning \$100,000 or more a year. This leads to an interesting question: If there are those willing to work as influencers and business willing to hire them, then why aren’t more people able to earn enough to make this a full-time career?

An understanding of the **labor market** in general, the market for influencer labor, and the idea of a **winner-take-all market** can help to answer this question.

The Labor Market

In most markets, households make up the demand side while businesses make up the supply side: Households demand products from the producers who supply them. In a labor market, those perspectives are reversed, with households (workers) representing the supply of labor and the businesses (employers) representing the demand for labor (jobs).



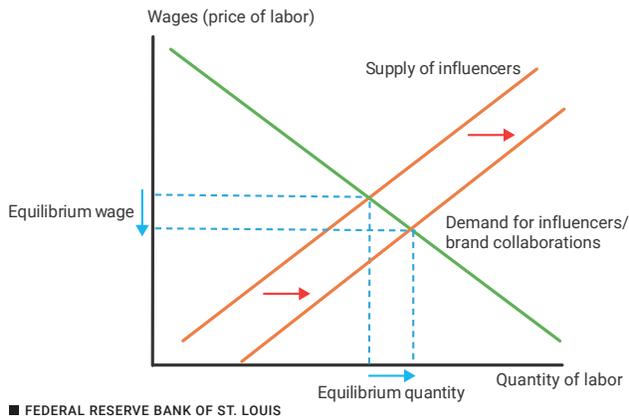
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The graph shows the vertical (y) axis is wages, or the price of labor, and the horizontal (x) axis is the quantity of labor. The supply of labor is upward sloping, meaning that the higher the wage the higher the quantity of labor supplied by workers. That is, workers are willing to work more hours at higher wages and fewer hours at lower wages.

The demand for labor is downward sloping, meaning that the lower the wage the higher the quantity of labor demanded by producers. Labor is part of a producer’s **costs of production** and must be subtracted from the sale price of any product. As the cost of labor rises, the less labor a producer is willing and able to hire (demand).

The Influencer Labor Market

Businesses seek out influencer labor as a form of marketing to reach specific and sometimes niche groups that they believe to be a strong market for their products. A business’s goal is to choose the right influencers to reach their target audience for the best price possible.



There are very low **barriers to entry** into the influencer market. Anyone with a cell phone and internet connection can create content for social media platforms. As more people try to sell their influencer labor to business, the supply of influencers shifts to the right.

The graph shows that the increase in influencers joining the market does mean a higher quantity of labor hours are demanded *but* at a lower price/wage. Businesses can demand a greater quantity of influencer labor, but influencers are receiving a lower price for labor (wages) because of increased competition.

Winner-Take-All Labor Markets

The increase in the supply of influencers created by the ease of accessing social media platforms can account for some of the wage differences in the influencer market, but it doesn’t fully explain why some influencers make so much while others make very little.

Economists have recognized that in specific cases, small differences in ability or other human capital translate to large differences in pay. The market for influencers is an example of this kind of winner-take-all market. Professional athletics is another example of a winner-take-all market that many of us are familiar with.

The differences in skill and talent between National Football League (NFL) and United Football League (UFL) players may be relatively small, but they can create large differences in their pay: The NFL has a minimum annual player salary of \$840,000, while the UFL has a minimum annual player salary of \$64,000. Even within the NFL, where the difference in relative skill is even smaller, the salary range is \$840,000 to \$60 million.

Opportunity also plays a role in winner-take-all markets. There are many high school football players who would love to play for high salaries but don’t have the opportunity—just as there are many people with social media accounts who would post for a salary but are not offered that opportunity.

The market for influencers, like the labor market for football players, demonstrates how relatively small differences in human capital and skill can make a significant difference in pay in certain labor markets. There is a small percentage of influencers who earn enough for it to be their full-time job while millions of other influencers earn very little.

A Challenging Market

While this is a simplistic look at the labor market for influencers, there are many other challenges and considerations when it comes to wage variation, such as the following:

- Social media algorithms can amplify small differences, helping an influencer reach a broader audience and scale their message with almost no additional cost. But social media platform algorithms are not public and can change without notice.
 - For businesses, selecting the right social media influencers to reach your customers and finding an accurate way to calculate the return on investment can be difficult.
 - And consider the volatile relationship between influencer and follower: Influencers must maintain the balance between authenticity and paid sponsorships or risk losing their audience. “Going viral” may be a temporary phenomenon or lead to a larger, more-permanent audience.
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Conclusion

Despite all the challenges mentioned, influencing as a career is still attractive to many in the labor market. The winner-take-all nature of the market means the few influencers who are the most successful and command the highest wages are highly visible with relatively small differences in skill to the average influencer. Couple this with the low cost of posting on social media and social media influencer continues to be an attractive potential career path.

Glossary

Barriers to entry: Obstacles that make it difficult for a producer to enter a market. Examples might include control of a scarce resource or high fixed or start-up costs.

Costs of production: The amount producers pay for the resources used to produce a product.

Labor market: The exchange of labor by workers who want to sell labor and businesses that want to purchase labor. (Also known as the job market.)

Winner-take-all market: A type of labor market in which small differences in human capital translate into large differences in pay.

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Name _____ Period _____

Reading Q&A

The Labor Market for Influencers

After reading the article, complete the following:

1. In the labor market, demand refers to
 - a. businesses that want to hire workers.
 - b. households that want to work.
 - c. businesses providing workers.
 - d. households providing jobs.

2. In the labor market, supply refers to
 - a. businesses that want to hire workers.
 - b. households that want to work.
 - c. businesses providing workers.
 - d. households providing jobs.

3. What happens to wages when there is an increase in the supply of influencers?
 - a. Wages increase.
 - b. Wages decrease.
 - c. Wages remain constant.
 - d. Wages fluctuate unpredictably.

4. What is a key characteristic of a winner-take-all market?
 - a. Equal pay distribution regardless of skill
 - b. Small differences in ability creating large differences in pay
 - c. Government regulation of wages
 - d. Low competition among participants

5. What role do barriers to entry play in the influencer labor market?
 - a. High barriers limit the number of influencers.
 - b. Barriers are high because of technical requirements.
 - c. There are very low barriers to entry.
 - d. Barriers are artificially maintained by existing influencers.

6. Businesses face which of the following when working with influencers?
 - a. Not enough influencers to choose from
 - b. Difficulty calculating return on investment
 - c. Excessive government regulation
 - d. Stable and predictable algorithms

7. Why would an increase in the supply of influencers lower the potential wages?
 - a. More influencers in the market means more competition for available sponsorships and brand deals.
 - b. Fewer influencers in the market means less competition for available sponsored content.
 - c. More influencers in the market drive up the demand for a business's products.
 - d. More consumers use influencers to find new products and services.

8. The labor market illustrates the relationship between
 - a. wages and the supply and demand for labor.
 - b. supply and quantity of businesses.
 - c. demand and the quantity of labor/jobs.
 - d. wages and producer price controls.

9. Which of the following is true in a winner-take-all labor market?
 - a. Pay is determined by relatively large differences in skill.
 - b. Pay for a very few is much lower than the average.
 - c. Pay is equal for all participants.
 - d. Pay for a very few is much higher than the average.

10. On a labor market graph, equilibrium represents
 - a. the wage and quantity level where the number of job openings is higher than the amount of labor supplied.
 - b. the wage and quantity level where the number of job openings is lower than the amount of labor supplied.
 - c. the wage and quantity level where the number of job openings is equal to the amount of labor supplied.
 - d. the wage and quantity level that represents the average wage for this type of labor market.