

Why most of the definitions of “non-fungible” are incorrect.



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“ — Are dollars or Bitcoin fungible assets?

— Yes... And no.”

Before diving into this strange conversation, we must return to the definition of non-fungible. Only then can we understand why most of the definitions of “non-fungible” are incorrect, or at least incomplete.

I had several passionate debates during Meetups around the definition of non-fungibility. And I must confess... most of these debates turned out to be sterile but, they helped me understand something important: the definition of non-fungibility is everything but obvious.

Let's go back to the basic definition of non-fungible.

Non-fungible definition

The definition of a fungible asset is as follows:

(especially of goods) being of such nature or kind as to be freely exchangeable or replaceable, in whole or in part, for another of like nature or kind.

Source: <https://www.dictionary.com/browse/non-fungible>

A non-fungible asset therefore has the opposite characteristics to this definition. Those elements are:

- Unique
- Irreplaceable
- Non-interchangeable

Excellent articles have been written on this topic, explaining what is a non fungible token.

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The most frequently use-cases are:

Fungible: Dollars, Bitcoin, Post-it, Sheets of paper, ...

Non-fungible: Art, People, Game Character, Snowflakes, Real Estate, ...

Unfortunately this is not so simple.

Why Bitcoin and Dollars are both fungible AND non-fungible.

Technically speaking each Bitcoin is definitely unique. This is why it is possible to trace the origin of a Bitcoin, and whether or not it participated in transactions in the “darknet”.

In the same way, each Bitcoin has a unique transaction history that makes it irreplaceable. But we still consider Bitcoin as commonly fungible. Strange... Indeed, it is exchanged as a coin, each Bitcoin has (potentially) the same value as the others, and no one is wronged if two people exchange two Bitcoins simultaneously...

Coins are the historical example of fungible assets in the real world. Traders accept a dollar bill without question (as long as it isn't counterfeit of course). We could certainly replace all the coins in your wallet with others of the same value without you realizing it, and without having lost any value.

However, a numismatist can tell you that the coins are not identical. Replace the pieces in his collection with yours and the impact will not be the same. However, these are the same coins we talked about earlier. But for him, and with his training, he can tell you that this coin in your wallet had a unique feature that gives it an incredible value, and that each coin is different due to its date of issue, the pattern on it, the small defect or the scratch that it can have on an edge, ...

In other words, these coins were fungible for you, but not fungible for him. So ... what's the answer?

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Fungible or not ?

What do we mean with “non-fungible”?

The example of the piece analyzed by you or by a numismatist is quite evocative of this problem. Actually, NO item in this world is really fungible. Even two of the same piece of furniture, apparently totally identical, have a different serial number, are composed of materials from different trees, ...

We thus observe a fundamental difference between the *technical value* and the *use value*.

Technically speaking, Bitcoin is non-fungible. But its use value makes it fungible. For almost all actors today, owning one Bitcoin or another is irrelevant. Only an extremely small part of the community is concerned about the history of their Bitcoin.

Some people treat NFTs as fungible assets, totally ignoring the use behind them, considering only the financial value of the asset. Two parcels of LAND on the [Decentraland Marketplace](#) worth 10,000 MANA may seem totally fungible to an unscrupulous speculator.

It is therefore the use value that defines the fungible or non-fungible character of the asset. And not its technical characteristics. The main use of an asset and the perception that one can have of it define fundamentally if the asset is fungible or not.

If tomorrow, everybody becomes a numismatist or is passionate about the traceability of his cryptocurrencies, these assets will instantly become non-fungible in use, without their technical characteristics having changed.



Definitely both. Depending on what you're checking.

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