"Countries cannot go bankrupt," proclaimed Walter Wriston, one of Citigroup's most cerebral but most misguided chief executives, in the 1970s. In his view, no matter how heavily indebted a country might be, "the infrastructure doesn't go away, the productivity of the people doesn't go away, the natural resources don't go away".

But the historical record is clear: scores of governments have failed to honour their financial commitments. From 1945 to the early 1990s the overwhelming majority of sovereign defaulters were in poor or relatively poor countries outside North America and Europe. The architects of the new single European currency therefore felt justified in regarding government debts in the newly-formed Eurozone as of impeccable quality.

Such was their confidence in the financial probity of member governments that banks were told by officials to treat sovereign bonds as a safe asset. Under the Basle rules of international banking, banks were not required to hold capital against possible default risk. The underlying assumption, in the Wriston spirit, was that, even if Latin American and African governments could go bankrupt, European ones could not.

In one respect the Wriston doctrine is correct, although the explanation is to be sought not in infrastructure, productivity or natural resources. The reason is cruder: the brute force of printed money. Citizens cannot refuse to accept payment in legal tender, just as they cannot refuse to pay taxes. Governments cannot go bust in debts denominated in their national currencies, because they can borrow limitless from the central bank which issues their tender.

The power to print money is a basic attribute of the sovereignty of modern nation states. Sure enough, it is open to abuse because too much money-printing causes inflation. Nevertheless, any government which hands the power to print its national currency to another authority must recognise an inevitable consequence. Its debt becomes far more risky. In particular, banks and other purchasers may in future buy it with less enthusiasm than before the dilution of monetary sovereignty.

That is one reason why the creation of a single European currency, in the years following the Maastricht Treaty of 1992, was an astonishing experiment. Governments did hand over the right to issue legal tender to a new supranational agency, the European Central Bank, and hence greatly increased the dangers that they might go bust. However, until the current crisis, financial markets continued to look upon the debts of European governments as virtually free of default risk. The debts of Germany and Greece, France and Portugal, traded with remarkably little differences in yield, as if all four countries were of more or less equal creditworthiness. Further, German banks owned Greek and Italian government bonds, and French banks acquired claims on the Portuguese and Spanish.

The crisis has radically altered the calculus of default. When Greece had debt of under 90 per cent of its gross domestic product and was paying a German-style interest rate of 4 per cent on that debt, the payments were a manageable 3.5 per cent or so of GDP. But Greece had been concealing the scale of its debt, now heading for 150 per cent of GDP. With its creditworthiness in tatters, it has to pay over 10 per cent to persuade people to buy its bonds, threatening to drive interest payments to 15 per cent of GDP.

I now propose a law (Congdon's Law of Public Debt): that no country has ever had interest payments on government debt in excess of 15 per cent of GDP. (I invite readers to find a counter-example.) Indeed, only rarely has the ratio exceeded 10 per cent. On this reckoning Greece (and Ireland and Portugal) are bust. They will not pay back their debts. Too late they have learned that countries can go bust if they sign an international treaty which shuts their printing presses.

What does this mean for the Eurozone's banks? Given that in many cases their holdings of dubious public debt are a multiple of their capital, are they bust too? And how can the European Central Bank—which since May 2010 has been the buyer of last resort for Greek and Portuguese government paper—account for and remedy its losses, which must total several billion euros? How much pressure is to be applied to governments of the Eurozone's periphery, and ultimately on their citizens, to pay most of what they owe? And, most fundamentally, what does the mess imply for European integration? Does it remain attractive? Or has it been tarnished for good, particularly in such places as Greece and Portugal?