On the evening of Friday June 26th, talks broke down between Greece and its creditors. The creditors had once more rejected Greece's proposal and put forward their own version including tax and pension changes that Greece had already said it would not accept.

In the early hours of Saturday morning, June 27th, the Greek Prime Minister Alexis Tsipras announced that the people of Greece would be asked to decide whether they wished to accept the creditors' proposal. A referendum will be held on July 5th.

The question that will be put to the Greek people is only about the creditors' proposal, not about Greece's membership of the Euro. But this referendum has huge historical and emotional resonances, deliberately created by the Greek government in a manner reminiscent of Alex Salmond's linking of the Scottish independence referendum to the historic victory of the Scots over the English at the Battle of Bannockburn in 1314. Salmond's move nearly worked – but in the end the economics won and the Scots rejected independence. Similarly, Tsipras's subtle attempt to link this referendum to Greece's rejection of Benito Mussolini's ultimatum in October 1940 may not be enough to overcome Greek fears. Opinion polls so far suggest that a "Yes" vote is likely, though exactly how the question was framed in these polls is unclear.

But the creditor side and the world's media quickly decided that the referendum was actually about Euro membership. A "No" vote would result in Greek exit from the Eurozone. A "Yes" vote would mean the fall of the Syriza government. Not surprisingly, the Greek opposition parties called for a "Yes" vote.

Even less surprisingly, the creditor side attempted to derail the referendum completely. Christine Lagarde of the IMF dubbed it "invalid" on the grounds that the current bailout expires on June 30th. President Juncker of the European Commission issued a press release "in the interests of transparency and for the information of the Greek people", to which was attached a 10-page document outlining a slightly altered proposal from the creditor side. The press release says that this proposal was under discussion until the Greeks walked out:

Discussions on this text were ongoing with the Greek authorities on Friday night in view of the Eurogroup of 27 June 2015. The understanding of all parties involved was that this Eurogroup meeting should achieve a comprehensive deal for Greece, one that would have included not just the measures to be jointly agreed, but would also have addressed future financing needs and the sustainability of the Greek debt. It also included support for a Commission-led package for a new start for jobs and growth in Greece, boosting recovery of and investment in the real economy, which was discussed and endorsed by the College of Commissioners on Wednesday 24 June 2015.

However, neither this latest version of the document, nor an outline of a comprehensive deal could be formally finalised and presented to the Eurogroup due to the unilateral decision of the Greek authorities to abandon the process on the evening of 26 June 2015.

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The Greek people are being asked to vote on the proposal put to the Eurogroup. The release of a new version of the proposal, and the suggestion that debt relief would have been up for discussion too, is thus clearly intended to invalidate the referendum.

Leftist youth hold placards reading 'no to agreement ' in front of the Greek parliament during a demonstration calling for a 'NO' at a referendum and for Greece's exit from the eurozone on June 28, 2015. Greek Prime Minister Alexis Tsipras stunned Europe late Friday with a surprise call for a July 5 referendum on the latest cash-for-reforms package and advised voters against backing a deal that he said spelled further 'humiliation'.

Meanwhile, the world's media, supported by a succession of leaks from "unnamed sources", was speculating that the imminent expiry of the existing bailout program would force the ECB to end ELA funding of Greece's banks, resulting in closure of the banks and capital controls. Unsurprisingly, withdrawals from Greek ATMs increased.

The last and most damaging of the leaks was given to Robert Peston of the BBC on the morning of Sunday June 28th. The choice of both media institution and reporter is significant: Robert Peston's reporting of Northern Rock's liquidity problems in September 2007 famously caused a run on the bank. And Peston did it again. He reported IN ADVANCE of the ECB governing council's decision that the ECB was going to "turn off" ELA. By the time the ECB announced its decision, some hours later, Greek ATMs were rapidly running out of cash.

Where the leak to Robert Peston came from we do not know. But front-running the ECB governing council's decision is tantamount to spreading rumors to start a bank run, which is illegal in most Eurozone countries (though apparently not in Germany). And since the Eurosystem is responsible for ensuring financial stability, deliberately starting a bank run is a major breach of the mandate of both the ECB and the national central banks. Whoever leaked this should be summarily dismissed.

Anyway, wherever it came from, it was clearly intended to force Greece to impose a bank holiday and capital controls. And it achieved its objective.

Late in the afternoon of Sunday June 28th, the ECB announced that it would freeze ELA funding for Greek banks at its current level, although it didn't seem too happy about it:

Given the current circumstances, the Governing Council decided to maintain the ceiling to the provision of emergency liquidity assistance (ELA) to Greek banks at the level decided on Friday (26 June 2015).

The Governing Council stands ready to reconsider its decision.

Had there been no bank run, the decision of the ECB to freeze ELA at Friday's level would not have caused major problems for Greek banks. But a bank run requires liquidity to be increased, not maintained. Closing the banks and imposing capital controls therefore became the only possible course of action. And it was duly announced by the Greek Prime Minister on Sunday evening.

Greek banks will remain closed until after the referendum and possibly longer. The amount of money Greeks can take out of ATMs is limited to 60 EUR per card per day, although holders of foreign bank cards are exempt from this limit – this is to protect Greece's important tourism industry. And there are controls on the movement of money across Greece's borders. The consequences for the Greek economy will be serious: tourists are already cancelling holidays and the money limits for Greeks will force them to cut spending. Businesses, deprived of access to funds for essential cross-border payments, may go out of business.

What has happened to Greece will be seen by many as due to incompetence and intransigence by the inexperienced Greek government. And it is true that they have made mistakes. They underestimated the determination of the creditor side to enforce existing agreements, and they acted at times in a less than diplomatic manner, angering the other side and making an agreement less likely. But more importantly, the Greek government failed to appreciate that the EU negotiators are not fundamentally concerned about restoring the Greek economy or enabling it to pay its debts. They are only interested in furthering the European project. Overturning the existing agreement and giving in to Greek demands would open the door to similar demands from other distressed Eurozone nations, notably Spain. The shadow hanging over the EU negotiators is Spain's Podemos party.

But for my money, the bigger fault lies on the creditor side. The fact is that the existing program has abjectly failed to meet its objectives: it has caused a depression in Greece of a similar order to that in the US in the 1930s, while failing to deliver either debt sustainability or renewed competitiveness. Yet the creditors have steadfastly resisted significant changes: in particular, despite the attempts by both Greece and the IMF to put debt restructuring on the agenda, the EU has refused even to consider it. The IMF, too, has displayed considerable intransigence: the Greek side actually walked out over the IMF's insistence on pension cuts and VAT rises.

And there can now be no winners. While Greece remained depressed but compliant, the EU masters could pretend that Euro membership would eventually deliver the promised prosperity. But now, even if Greece by some miracle remains in the Euro, its relationship with the rest of the Eurozone is fundamentally changed.

Freezing ELA means that Greece can now only regard itself as a "user" of the Euro rather than a full member of the currency union. There is no legal means for countries to leave the Euro, but it seems that they can be frozen out. This should not be seen as similar to the Cyprus situation: liquidity in Cyprus was restricted because its banks were insolvent. Greece's banks are not insolvent (yet). The ECB's statement makes no mention of bank

solvency: the liquidity freeze responds to the failure of the talks and the decision by the Greek government to call a referendum. The freeze is therefore an overtly political move. The independence of the ECB has been shattered.

The “irrevocability” of the Euro is no longer credible. Using liquidity restriction to force a country to introduce capital controls is tantamount to suspending its Euro membership. So the sovereign debt of other distressed Eurozone countries will now carry a risk premium because of the possibility of membership suspension. Yields on other periphery bonds have already risen sharply, and although they will probably settle as the initial shock wears off, it seems unlikely that they will return to their previous low level.

The Euro can no longer be regarded as a “single currency”. It has been revealed for what it really is, a system of hard currency pegs between 19 – or perhaps now 18 – sovereign countries. And a system of hard currency pegs is fragile. The risk that the Eurozone will unravel is substantially increased.

As Manfred Weber, chairman of the EPP Group in the European Parliament, said, “The Eurozone is no longer the same after the events of the past few days”.

History will regard Sunday June 28th, 2015, as the day the Euro died.