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The Congressional Budget Office recently released its annual economic outlook and, as one might expect, it is not at all rosy. The CBO projects that in 10 years the federal debt will be $26 trillion, or five times the projected $5 trillion federal tax revenue. But it turns out that the budget office isn't very good at forecasting.

Since at least 1997, the CBO has been an ongoing exercise in positive thinking. It routinely overstates future revenues, understates future spending and significantly understates future debt — all this from a nonpartisan office. With analyses like this, who needs partisanship?

In the 121 forecasts it has generated since 1997, the CBO has overestimated future revenues 70 percent of the time, underestimated future spending 85 percent of the time and underestimated the federal debt 80 percent of the time. In short, when there's a choice between rosy and dismal outlooks, the CBO consistently errs on the rosy side.

So just how bad are its forecasts? On average, the budget office overestimated 10-year forward tax revenues by 20 percent, underestimated government spending by 30 percent and underestimated federal debt by a whopping 80 percent.

In its defense, the agency is required to use whatever assumptions it is given — no matter how outlandish. If politicians assume, for example, that the economy will grow at a dot-com era pace for a full decade (as they assumed in 2010), the CBO must build its forecasts around that assumption. While we can't trust the CBO's predictions, we can adjust them given what we know about their past errors.

If the CBO's current forecasts are off by as much as its past forecasts, that $26 trillion debt predicted for 2023 will actually be $48 trillion. And how much tax revenue will be collected to service that massive debt? The CBO estimates $5 trillion. But based on past errors, we can actually expect $4 trillion. That is bad news without question.

But it gets so much worse.

Today, the federal government pays 2.6 percent interest on its debt. This is uncommonly low because of the Federal Reserve's manipulation of interest rates. Yes, Washington tells us that low rates are good for businesses and home owners, but the biggest beneficiary is the federal government itself. Over the past 50 years, the interest rate on the federal debt has averaged 6 percent. At today's 2.6 percent, the government saves more than $500 billion in interest annually.

Ten years from now, if rates have returned to their historic average, 70 cents out of every tax dollar will go to pay for interest on the debt. In addition to a $48 trillion debt, we will be running $5 trillion deficits.

This means one of three things will happen in the next decade. The Fed will hold interest rates down (meaning near zero returns for savers and, eventually, severe inflation), the Fed will raise interest rates but not all the way to 6 percent — forcing Washington to cut noninterest spending by 50 percent or more (most likely by gutting Social Security and Medicare) — or the government will default.

Since the third option is extremely unlikely, that leaves us with a choice between sustained and significant inflation or gutting social programs. We shouldn't have to make this choice. And we might yet avoid it if politicians put us on a sustainable fiscal path, not over 10 years but over two or three.

Politicians have a year, maybe two, to decide whether history will remember the upcoming decade as the Great Economic Renaissance or the Great Economic Collapse.

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