



Episode 835: Entrepreneur Starts Network of Private Schools; Outperforms, Underspends Public Schools

Guest: Bob Luddy

WOODS: I saw the video on *Reason TV* about what you were doing. I already knew sort of what you were doing, but I didn't realize how fantastic and incredible it was and what your hopes for growth were, so I thought let's get you on and talk about this a bit further. Let's begin with an item I read in *The American Spectator* from some time ago, when you were talking about how you – I don't like to use the word "converted," because it sounds like a religious conversion, but how you became, let's say, an Austrian economist in your thinking about the economy. Where did that begin, because I know you've been a supporter and benefactor of the Mises Institute over the years.

LUDDY: That's an easy one. My mentor was Dr. William Peterson, who was a student and colleague of Mises. And we became good friends, and he taught me Austrian economics over a 20-year period, as a mentor, teacher, second father, and great friend. Probably the greatest mentor and friend I ever had.

WOODS: Well, now you – you went on to found a business I guess in 1976, CaptiveAire, that apparently you employ hundreds of people, you've got hundreds of millions of dollars of revenue. As far as I can see you're in six states. Tell me something first about CaptiveAire, and then I want to talk about what you've been doing with schools.

LUDDY: CaptiveAire is the leading producer of commercial kitchen ventilation systems in North America. We have six U.S. manufacturing plants. All of our products are made in the U.S.A. We have our own sales force, which is up to about a hundred sales offices. And we're vastly becoming a technology company because, in the modern world, kitchen ventilation is much more complicated and integrated with HVAC and all the other systems within the buildings. So CaptiveAire has grown to be kind of a giant and essentially formed a new industry, where you had a modern way of dealing with commercial cooking, which sounds easy, but you essentially have an industrial cooking process inside of a restaurant where you don't have any industrial engineers. So these systems have to be designed where they function well and are sustainable and safe. That's what we do.

WOODS: All right, I want to move into the education stuff. My understanding of the progression is that you went from frustration at trying to get through to the education bureaucracy in I guess North Carolina, then you moved into the charter school system, and then you moved beyond that into this system of the Thales schools. So let's start

with: what were the frustrations you were initially experiencing that finally led you to throw up your hands?

LUDDY: I think the starting point was when they were telling me that individuals in our plant could not use the tape measure and measure fractions, which I thought was not possible, but it was. So I began to learn more about the lack of good education that these people had. And it frustrated me because everybody says they're for education, we allegedly have great public education system, we dump money into it, but we don't seem to care about the outcome.

And that made me – I think in '97 it crystallized: I've just had enough of this, and I'm going to do something about it. And so I ran for school board, and mercifully I lost, and then immediately filed for a charter, public charter school, which was a great entree because we learned a lot in that process. And I view charters as transitional. It's a better idea than current public schools, but it's not a good long-term idea. And of course my Austrian friends have made that clear to me, and they were right from the beginning. But sometimes we have to transition to better ideas.

WOODS: Well, what is the idea of a charter school? There are some benefits to it.

LUDDY: I think the major benefit is you have private individuals running the school versus a school board. And so in some cases you're going to get just amazing, stellar results, but where you don't get good results the schools can be put out of business. And here's another way to think about it: if parents elect to come to your charter school, they're gatekeepers, and it's an affirmation that that's probably the best choice that they have. Now, maybe it's not the best school on the planet, but it's the best choice that they have at that point. The bureaucrats tend to think, We have to make all of these choices because parents don't know what to do. Parents are going to make the best choice they can based on the availability of choices.

WOODS: All right, so I've looked into charter schools over the years, just trying to figure out what kind of options are available. And I've seen that it's better than the typical government school, but you still have the same government system just being administered somewhat differently. So what made you then – was there a breaking point where you decided, This just doesn't go far enough to do what I want to do. I need to start a purely private network of schools.

LUDDY: Yeah, two things happened. One, we were concerned that they're always tweaking the regulations, so we kind of came to the conclusion, in the long term we're going to be overly regulated. And secondly, if you went back to 2006, North Carolina had a cap on charter schools of 100, and since we had 100 schools, there were no charter school opportunities. So I held a meeting with some parents, and I expected about five or ten. About 30 showed up at 6 o'clock, and they were still here close to 9 o'clock. I had to send them home. So the interest in a better school, a new idea, was very profound, and that's what helped launch Thales Academy.

WOODS: Before I go into that in more detail, your story about in your company seeing that people couldn't measure fractions basically with a ruler led you to think something is really wrong, what I found funny about that is that here you have people who have been woefully, poorly prepared to go into the private sector, and yet when

you attack that system you are perceived as a supporter of privilege and an opponent of the most vulnerable. But of course, the most vulnerable are the people who come out of this system and have nothing by way of skills to show for it. It's quite a racket they have going. They do a rotten job, and then when you criticize them it's because you favor schools for the wealthy or something.

LUDDY: It's what I call "100 ways to lose and no way to win." Everything is directed towards supporting the public school system, and very little is directed toward that student. So one thing that has happened now with choice, if you look in Wake County, which is Raleigh, North Carolina, 19% of the students are no longer in the traditional public school. So they might be in homeschool, charter schools, Christian schools, private schools. And that's having a profound impact on our economy, and I think you're going to see in the longer term that number's going to continue to grow as those choices become available to parents.

So the whole discussion of education because of choice has ameliorated some of the attacks on the public school system. So I don't talk about the public school system, but conversely, I don't get attacked any longer, because you can't attack a good model very easily. And I wanted to mention that one of the purposes of the Thales Academies was to create the largest model possible to demonstrate to as many people as possible that there is a far better way to educate K-12 students.

WOODS: Right, now this is really where we want to get into the meat of things. We want to talk about the Thales Academy and what your ambitions are in terms of opening these in different places around the country. Let's first say a word for our sponsor.

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Okay, so the Thales Academy is your model, and I watched that *Reason TV* video, got some more detail about it. And it's interesting, just on a raw level, just to compare things like costs between you and other schools, obviously adjusting for number of students – but clearly this is a model that you have that is more of a business model. Now, that horrifies progressives, but the point is with a business model you're not just looking at inputs: oh, we built a new building, we spent all this money. Okay, you can do that. There are white elephants all over the third world. Big steel plants but nobody to work there, huge palaces while people starve. You can spend a lot of money. The point is: what do you get out of it? That's what a businessman wants to ask, and it seems to me that's what you're trying to do here.

LUDDY: Absolutely. I mean, we met with public school systems over the years trying to inform them how they can lower the cost of buildings. And this goes back to at least 1970. But they build the white elephants, and over time they continue to spend more and more money, which kind of sucks the life out of the whole system. So when I started I thought we could build our facilities in the range of about one-third. Depending on the building we're one-third to one-half of what a public school spends. But we have more than they have. We have modern electronics. We have good lighting. We have excellent air conditioning. We have properly sized rooms. Pretty much anything in our buildings is sustainable. So it fits the modern trend.

And also our buildings are beautiful. Aesthetics are huge portion, part of what we do from the outside and inside. We have street clocks. We have the traditional-type liberty bell. We have beautiful paintings and murals. Everything about the school reflects beauty and order, and it's just a wonderful place to be. Individuals that come in the building, they're aghast how beautiful the buildings are, because they're thinking, "Well, lower cost, it's probably going to be low-rent." No, it's high-rent. It's a beautiful place.

WOODS: I'd like to compare it now as closely as we can with comparable schools. So what grade levels are served, first of all?

LUDDY: Okay, we are a pre-K through 12th grade.

WOODS: All in the same building?

LUDDY: No, the way we break our buildings down is pre-K to 5 would be one building and 6 to 12 would be the other building. So we have two models.

WOODS: Okay, but all in the same complex.

LUDDY: Not necessarily. Some of those are split, where they'll be in two different locations.

WOODS: Okay, okay.

LUDDY: They'll be close but not necessarily in the same location.

WOODS: How many of these do you have so far?

LUDDY: We have six total campuses, which includes four K-5s and two 6-12s.

WOODS: Okay.

LUDDY: And we have four under current development, and our initial goal was to build 25. And as I previously stated, when we get 25 campuses done, our goal will be to build 100 campuses.

WOODS: Have you so far been able to measure outcomes and make comparisons? Because that is going to be a question people are going to want to know the answer to.

LUDDY: We do that in a number of ways. For example, the direct instruction in K-5 is based on mastery, and the way they ascertain mastery is a two-minute checkout with your teacher every week. So every week, the teacher will determine, Are you with this lesson? Have you learned the lessons of the week? If after a couple of weeks you are falling behind, not learning, you will be in remedial in the afternoon, and/or you're subject to moving down a level. Because we might have two or three levels of reading, math in any particular grade. So that's the first way, and it's probably the most effective way, because one-on-one with the teacher can't be gamed. We also from

time to time bring in outside individuals – could be the principal, could be an outside person – who will do the checkouts to make sure the teachers don't game the system. Then we use the Iowa Basic Skills, which actually give you a pretty darn good insight in detail of what they're learning and if they're mastering the skills.

In the 6-12, we move toward PSAT, and even though the PSAT is an 11th-grade marker, you can give it in the 8th grade. And obviously they're not going to do as well as they would in the 11th grade, but that provides very good insight of what kind of student you're sending on to the 9th grade. And then of course you can track them: 9, 10, 11. You eventually go to SAT. So our goal is on average – and I think we're achieving this – to have 1200 average SATs coming out of the 12th grade.

WOODS: How does that compare to elsewhere in the surrounding area?

LUDDY: Well, to give you an example, statewide it would be a little less than 1000, maybe in the 990 range. In this county, which is better than the state, it's somewhere around 1050 average.

WOODS: How do you respond to the claim I'm going to assume you will get at some point if you haven't already that you have a self-selected group? These are motivated parents who would go out of their way to enroll their kids here. You might have a more selective admissions process or something. And so yeah, you are going to do better just on those grounds alone.

LUDDY: Well, primarily because these schools tend to be neighborhood schools. So for example, in southern Wake County, you will see a large number of Indian Americans. In Raleigh, you'll see somewhere around 35% African Americans. So for a third of the school to be African Americans somewhat demonstrates it's not self-selected. If you move to other schools, they reflect the community.

Another thing that's important to point out: we offer scholarships, so there's many students that come in that might be on a 50% scholarship, that there's no way they could ever think about going to a private school. We don't heavily publicize that, but if someone says, "Do you offer assistance?" we use an outside evaluator called FACTS, and they make their recommendations. So we've been able to accommodate many, many students that would never have a chance to go to these schools.

I might also point out now in North Carolina, for a family of four under \$60,000 in income, there is a state scholarship provided of \$4,200. So were a student to qualify for that scholarship, about 90% of their tuition is paid by the state.

WOODS: That does raise the question, leaving aside that, how affordable is this? Because the article that I read or the headline for the video was that a private entrepreneur is building low-cost private schools. Well, "low-cost," what does that mean?

LUDDY: Low-cost in K-5 is \$5,000, and in the 6-12 it's \$6,000. And based on private schools locally, that's anywhere between half and 25% of what's charged. So there's a number of private schools here and in other places that are charging \$20,000+. We're

at \$5,000. And 5,000 gets you down to a threshold that many middleclass families can afford. And if they can afford it – and many of these families make sacrifices to pay that 5,000. But think about this: that sacrifice says, "We're spending this money to educate our child rather than to buy a bigger van or go to more movies or entertainment." So it has a profound and positive impact on the entire family. And many, many times parents will tell me, "You're not changing the life of our child, although you are. You're changing the life of our entire family."

WOODS: I'm still interested in the cost savings here, and I want you to shed light on that, because it's not just that you guys are better stewards of money and more efficient, although I have no doubt that that's the case. But probably there are going to be some things that people would expect to find in a public school that they won't find at Thales Academy that you've managed to do without. What would be examples of that?

LUDDY: Well, we don't have a cafeteria. We're not a sports complex, although we do offer – we have nice playgrounds in the K-5. We have a small gym inside the building. When we go to the 6-12, we do have a soccer field. We don't have football, so that's one. And there are many parents that don't want their student to go to a school that doesn't have football. We're never going to have it.

But the basic things they need we have. And I'll give you an example. Right here in Wake County, I read in the newspaper this week, that the state has mandated smaller class size. So the public school system has said, Well, in order to accommodate smaller class size, we're going to have to eliminate music and art. That reflects just a vicious attitude on the part of the bureaucrats that run these schools that they're denying these kids important fundamentals to prove a political point.

WOODS: Let me ask you – just because I'm going to forget if I don't ask it now – how do you guys handle disciplinary problems or expelling students or whatever? Maybe this doesn't come up much. But it seems to me the public schools' hands are always tied, and for all their talk about they're going to crack down on bullies, they never do. They almost never do. Unless something gets local publicity and they're forced to do it, they really just kick the can down the road.

LUDDY: We start by telling the parents we are not the disciplinary person of your child. We expect them to follow the protocols and disciplines of the school, and if they fail to do that, we will send them home for the day. So think about this. Mom gets a call, and Johnny in the 2nd grade has to be picked up at 10:15 in the morning. What does she tell Johnny that night? "I'd better never get that phone call again." So from the early years, we get compliance without the big stick, if you like. The big stick is we're going to send you home to mom. She's the disciplinarian. Or dad. Once they learn this from a young age, they realize that school is orderly and disciplined and you follow the rules. It's pretty darn simple.

Now, there are some rare cases when students need to be expelled. And normally what we do is tell the parent, We suggest that you enroll him in another school or we will have to expel him. Or in some cases we just say we won't reenroll him for the next year. In the last few years, I don't know that we've expelled a single student because we get compliance. So the fact that we're willing to do it if it needs to be done helps

with the compliance. And we have very precious few disciplinary problems, and we don't have to put a lot of effort into it. It's part of the culture.

WOODS: Are you able to discuss something of, I don't want to say the business model of this, but I'm wondering do you need outside benefactors to be able to provide education at what is clearly low cost?

LUDDY: We do to this extent: if we build a new building and it costs \$5 million, I've been donating about 30% of that money, maybe 35, and then we get a bank loan for the rest of it. And with that we should be able to cash flow, although it might take three years before cash flows because the enrollment ramps up. So I also support the operating losses until it breaks even. But long term, the school should cash flow with that amount of investment.

And one of the things I established in our schools day one of the public charter is that we would never do fundraisers and we would never ask for money. So here we are 18 years later. We do no fundraising. We don't ask for money. Periodically somebody will send a check in. We will accept it, but it's not solicited in any way, and it's rare that we get a check. So it's basically my model. Maybe ten years down the road we might need some other investors. But right now that's the way it's done.

WOODS: So tell me about your plans – or about this: your ambitions and then your immediate plans.

LUDDY: Well, the immediate plan is to open four more schools to get to ten campuses, and then concurrently we're always perfecting what we're doing. So this year we did not open a school, so we're spending the entire year reviewing our operations, trying to improve them. Because if you're going to roll out 25 or 100 schools, you need to do most things extraordinarily well. So we're always going to be checking that baseline to say, Are we executing the way we advertise? That's a continuous process. And we will expand as rapidly as we have leaders and the interest in these schools.

WOODS: Well, it's very exciting to me. I would love to see one in my area. I'm in central Florida. I heard Florida is possibly in your crosshairs. "Crosshairs" makes it sound like you're waging a war, which maybe is not the way you want to put it. But I would certainly love to see one in my area; I'll put it that way. It seems very exciting what it is you're doing. And in doing it, you're not only providing a great service to people who desperately need it, but you're also able to – you are a living refutation of so many myths about what is and what is not possible in education on the private side. Because who are we going to believe: the naysayers or our own eyes when we look at what you're doing? So it's great all around.

LUDDY: You captured really the essence of what we're trying to do. We provide a model, grow the model, and we want everybody to copy us. And they may do things differently than we do, and that's good, because parents should have as many choices as possible, and we need as many companies and individuals engaged in education. It can no longer be left to the public school system or, to quote my father, 1955 he said that education is too important to be left to the educators.

WOODS: Yeah.

LUDDY: At the time I did not know what he meant, but I did learn in time.

WOODS: You sure do now. That's right. Well, the website is ThalesAcademy.org. I'm going to take a guess; I don't actually know why you named it Thales Academy, but is it just because Thales is concerned to be the first philosopher, the first real systematic inquirer as to what the universe is made up of and so on?

LUDDY: That's exactly right. That's why we did it.

WOODS: All right, great.

LUDDY: My daughter did the research, and that's the name she came up with, and it turned out to be a perfect one.

WOODS: It's great. It is absolutely great. So ThalesAcademy.org is the website. Of course I'll link to that TomWoods.com/835, where I will also link to the video that we've been talking about so you can actually get a glimpse inside and see for yourself what Bob Luddy's been up to. Well, tremendous. Great. This is wonderful. A lot of times on this show it's all downer and depressing, and I'm glad to be able to tell people that doggone it, even in the face of tremendous odds, we are able to do great and important things. So thanks so much for being here and for doing what you're doing.

LUDDY: Thank you very much. It was a pleasure to be with you.