I thank all four discussants for their valuable insights. Before responding to their specific comments, let me help clarify to readers that adjustment for density (or likelihood, if appropriate) maximization is a method for approximation and not a stand-alone procedure for inference. The favorable frequency properties of the ADM-SHP procedure rely particularly on the flat prior chosen for the random effects variance $A$. After that, the responses of Partha Lahiri and Santanu Pramanik and of Claudio Fuentes and George Casella are addressed.

Because shrinkage factors $B_j$ are constrained to [0, 1], a Beta distribution ostensibly serves as a better approximation to the likelihood function or posterior density of $B_j$ than does a Normal distribution. MLE and ADM methods are fitted based on computing two derivatives, and they agree exactly when a Normal density is chosen to approximate a likelihood function (or a posterior with a flat prior). However, as Lahiri and Pramanik’s Figure 2 shows, sometimes no Normal distribution can closely approximate the distribution of a shrinkage factor $B_j$ and then the MLE will yield misleading inferences unless it can be liberated from its usual Normal approximation.

ADM (Morris, 1988) was designed to approximate a given (one-dimensional) distribution with any chosen Pearson family, perhaps with a Normal distribution if for MLE purposes, or a Beta for shrinkage factors, or a Gamma, an Inverted Gamma, an $F$, a $t$, or a Skew-$t$ distribution for other situations. ADM does not alter a posterior density or a likelihood function. The new curve that the ADM creates via multiplication by the ‘‘adjustment’’ ($A$, in this paper) has no meaning other than to provide a mode in the interior of the parameter space that one believes will lie closer to the mean of the actual density, or likelihood.

The statistical properties of the ADM approximation depend crucially on the corresponding properties of the procedure it approximates. While ADM can be used to approximate various Bayes procedures, for proper and for improper priors, that is not the goal in this paper. Rather, the objective is to provide estimates of shrinkage factors via calculations similar to those of MLE procedures that improve on the MLE for resulting inferences about random effects. The flat prior on $A$ was chosen neither for Bayesian reasons nor for subjective reasons, but because it leads to Stein’s harmonic prior (SHP) on the Level-I parameter vector $\theta$ and yields formal Bayes point estimators of the random effects with verified and dominant mean squared error risks in the frequency sense. The paper provides additional strong evidence that the formal Bayes posterior intervals, whether computed exactly or as approximated by ADM, meet (or nearly meet) their nominal (95% in the paper) confidence coverage rates in the equal variance two-level Normal model, whatever be the unknown between groups parameters $\beta, A$.

Crucially, the conditional Level-II mean and variance of each random effect $\theta_j$ depends linearly on $B_j$ and nonlinearly on $A$. For that reason ADM, which is designed to approximate a mean, starts in this application by approximating $B_j$ with a Beta distribution, rather than applying ADM directly to $A$ (perhaps with an approximating $F$ or a Gamma distribution). By good fortune this turns out to be equivalent to setting $A = \text{argmax}(AL(A))$ with $L(A)$ the likelihood function [or perhaps a REML version of $L(A)$ if $r \geq 1$] so that $A$ legitimately can be viewed as a likelihood ‘‘adjustment.’’ However, this adjustment actually arises as a principled choice based on three considerations: (a) the established frequency properties of formal Bayes procedures that stem from SHP; (b) the ADM approximation that uses a Beta distribution, for which the adjustment is $B_j(1 - B_j)$; and (c) that the shrinkage factor $B_j$ enters linearly in the first two Level-II moments, given ($\beta, A$), of $\theta_j$.

Perhaps other confidence interval shrinkage procedures for the Normal two-level model have been proven to do as well by frequency standards as the procedures based on SHP and its ADM-SHP hybrid here. We know from Figures 6 and 7 that coverage rates

---

Carl Morris is Professor of Statistics, Department of Statistics, Harvard University, One Oxford Street, Cambridge, Massachusetts 02138, USA (e-mail: morris@stat.harvard.edu). Ruoxi Tang obtained his Ph.D. from Harvard’s Statistics Department and is with a New York investment firm, Bloomberg L.P., 731 Lexington Ave., New York, New York 10022, USA.
for these two procedures hold up very well, even for very few groups. Data analysts regularly use two-level procedures and report the nominal confidence interval coverage rates, but it is unclear how often, if ever, the claimed frequency coverages have been verified.

We turn first to the comments of Lahiri and Pramanik. Analysts working with small area data, almost by definition of “small,” encounter noisy estimates for individual small areas. Fortunately, SAE data sets provide an opportunity to borrow strength by using information from neighboring areas, a technique for which the Fay–Herriot random effects model is widely used. However, maximizing the likelihood functions for the shrinkage factors that arise in such models not uncommonly produces full or nearly full shrinkages, as Lahiri and Pramanik show in Figures 1 and 2. In such cases MLE procedures typically (and non-conservatively) overestimate shrinkages and produce intervals too narrow to meet their nominal coverages. That concern has inspired Lahiri, with Pramanik and other co-authors, to develop procedures that reduce or avoid over-shrinkage, and ADM reasoning has helped them with that.

The ADM (dashed) curves in Figures 1 and 2 of Lahiri–Pramanik are Beta densities that show each state’s own density plotted against $B_j = V_j/(A + V_j)$ (solid curves). If these densities were defined with respect to $dB_j$, ADM then would have to be multiplied by $B_j(1 - B_j)$, the adjustment for a Beta density, to produce a new curve with a mode aimed to lie closer to the mean $E(B_j | \text{data})$ of the (“exact”) posterior density (solid curve) of $B_j$ than does its own mode. However, that adjustment already has been made in Figures 1 and 2, and we see that all four dashed curves in Figure 2 are maximized when $B_j < 1$ [the Beta densities in Figures 1 and 2 are relative to the measure $dB_j/(B_j(1 - B_j))$.

Lahiri and Pramanik ponder at the end of their first section whether “... there is any need to find different adjustment factors, possibly depending on the $V_j, ...$.” Letting a prior depend on the available sample size means that it will change should more data become available. If new data provide the only additional information and their additional impact is properly assessed in an updated analysis, there would be no basis for changing the prior. Perhaps this consideration will be useful even from a frequency perspective.

Lahiri and Pramanik ask, “How may the ADM method be useful in a non-Bayesian paradigm?” describing the SHP and ADM-SHP procedures as “essentially Bayesian.” That second section mainly concerns whether and how well ADM-like ideas can help enhance familiar frequentist procedures such as EBLUP, REML, MLE, and their own AML modification of ADM for estimating $A$ in the presence of unknown (nuisance) regression coefficients $\beta$. Their likelihood adjustment $g(A)$ is designed for the same two-level regression model as is the procedure in Section 2.8 of the paper.

They investigate likelihood adjustment factors other than $A$ by considering the resulting bias of shrinkage factors. A likelihood multiplier $A^q$ with $0 < q < 1$ will increase shrinkages. These may be effective if $q$ is not too close to 0 ($q = 0$ returns us to MLE’s problem of maximizing at the boundary). Such powers arise in our paper when ADM approximations are developed for scale-invariant priors on $A$. There is little reason to consider $q > 1$ since the SHP rule ($q = 1$) already is quite conservative. With $q < 1$ the resulting confidence interval estimators may have insufficient coverage for some hyperparameters, particularly for larger values of $A$. The bias of $B_j$ may not provide the best criterion, as the James–Stein shrinkage estimator is the uniformly minimum variance unbiased estimator of $B$ in the equal variances setting, and then that unbiasedness comes at the cost of allowing the shrinkage factor to exceed 1.00, making the James–Stein rule inadmissible.

Lahiri and Pramanik’s referring to the SHP and the ADM-SHP procedures as “essentially Bayesian” could suggest to some frequentists that these rules are to be avoided. As already noted, Stein’s (improper) harmonic prior has been chosen here for the excellent frequency performance it endows on its formal Bayesian point and interval procedures. From a frequency perspective, any procedure that uniformly (whatever the unknown parameters) outperforms traditionally accepted frequentist procedures must be accepted, even preferred, regardless of how it has been or could be constructed. As is well known, and as Fuentes and Casella also emphasize, the fundamental theorem of frequentist decision theory asserts that all admissible procedures are essentially Bayesian, that is, are constructed from proper or formal priors. Procedures not thusly constructed can be improved upon uniformly.

The ADM-SHP procedure here also performs well in repeated sampling, and it too compares favorably with many procedures regularly used by frequentists, with excellent confidence interval coverages.

Claudio Fuentes and George Casella confine their discussion to the equal variances case, even though real data almost always involve unequal variances. They
have adopted this setting, as have many theorists, because the equal variance setting enables mathematical calculations which otherwise would be nearly intractable.

Their discussion starts by considering shrinkage estimates of the vector \( \theta \) that would arise if the Level-II variance \( A \) were allowed to be negative, showing that this inevitably leads to impossible distributions on \( \theta \). We are reminded that the James–Stein estimator otherwise would be admissible for \( k \geq 3 \), which would violate fundamental theorems in decision theory. The case \( k = 2 \) is not considered, although then the James–Stein estimator reduces to the unbiased sample mean vector, which is known to be admissible.

Even so, being aware of what happens if integrals over \( A \) (not \( \theta \)) are extended to include \(-V < A < 0\) gives insight into the James–Stein estimator’s over-shrinkage problem. It inspires the obvious and successful idea of truncating at \( A = 0 \), in which case the resulting flat prior on \( A \) makes the likelihood function of \( A \) agree with the posterior density and in turn this induces Stein’s harmonic prior (SHP) on \( \theta \). Extending the integral to allow \( A < 0 \) even enables an easy gamma-function approximation to the SHP shrinkage factor when \( A \) is large, which reveals the similarities between the SHP and the James–Stein shrinkage factors when shrinkages are small.

I appreciate Fuentes and Casella’s reminding readers that the ADM-SHP estimator is minimax in the equal variance Normal setting, and for noting that the proof is an immediate consequence of Al Baranchik’s 1970 result. Their discussion about the left panel of Figure 1 embraces the range of minimax procedures covered by Baranchik’s result. Al Baranchik was a Hunter College professor for over 40 years, after having been Charles Stein’s Ph.D. student and a colleague to many of us at Stanford when he proved his theorem for his 1964 dissertation. Al passed away not long ago, but “Baranchik’s minimax theorem” is forever.

The right-hand panel of their Figure 1 plots risks as a function of \( \theta \), revealing the SHP risk to be uniformly lower than that of its ADM-SHP approximation. This must happen in the equal variance setting because the ADM approximation of SHP’s shrinkage factor always underestimates slightly, as seen in Figure 2 of Section 2.7. That makes ADM-SHP estimators of \( \theta \) be more conservative than SHP estimators, which forfeit some of SHP’s risk improvement over the sample mean vector.

Fuentes and Casella point out that frequency minimax theorems in the spirit of Stein estimation also have been developed for non-Normal models settings. True, and the earliest non-Normal minimax results I remember were for Poisson estimation, by Clevenson and Zidek and by J. T. Gene Hwang. However, frequency confidence interval evaluations for two-level Poisson models largely have been ignored. In practice, Bayesian methods are used for various non-Normal settings to provide inferences in multilevel models that include posterior interval estimates for random effects. Again, there have been very few global evaluations to determine whether these Bayesian intervals can serve as approximate confidence intervals as Level-II hyperparameters vary throughout their range.

Christiansen and Morris (1997) used ADM to approximate shrinkage factors for a two-level Poisson random effects regression model. Conjugate Gamma Level-II distributions are specified there to ensure existence of conditional shrinkage factors. Just as here, the ADM approximation to the SHP shrinkages there used Beta distribution approximations of shrinkage distributions to obtain component-wise point and interval estimates for the Poisson random effects. (The SHP is transported there to the Poisson setting via a shrinkage factor analogy.) The results there have been implemented computationally by the PRIMM (Poisson regression interactive multilevel modeling) software. Our frequency-based evaluations of the resulting interval estimates (limited to using PRIMM for simulation methods) successfully have met frequency coverage standards, even for quite small \( k \) and for unequal sample sizes, regardless of the hyperparameters tested. The PRIMM procedure can serve SAE with Poisson multilevel data, such as that of Manton, Woodbury and Stallard (1981).

I extend special appreciation to Dr. Lahiri for inviting this paper and for organizing its discussion, in addition to his participating in the discussion.

REFERENCES

Christiansen, C. L. and Morris, C. N. (1997). Hierarchical Poisson regression modeling. *J. Amer. Statist. Assoc.*, 92 618–632. MR1467853

Manton, K. G., Woodbury, M. A. and Stallard, E. (1981). A variance components approach to categorical data models with heterogeneous cell populations: Analysis of spatial gradients in lung cancer mortality rates in North Carolina counties. *Biometrics* 37 259–269.

Morris, C. N. (1988). Approximating posterior distributions and posterior moments. In *Bayesian Statistics 3* (Valencia, 1987) 327–344. Oxford Univ. Press, New York. MR1008054